ROLE OF AUTO-FINANCE FOR MODERNISATION OF COTTON TEXTILE INDUSTRY OF INDIA

THESIS SUBMITTED FOR THE DEGREE OF
DOCTOR OF PHILOSOPHY

BY
Mohammad Kalimullah Khan

UNDER THE SUPERVISION OF
Prof. Q. H. Farooquee
DEAN, FACULTY OF COMMERCE

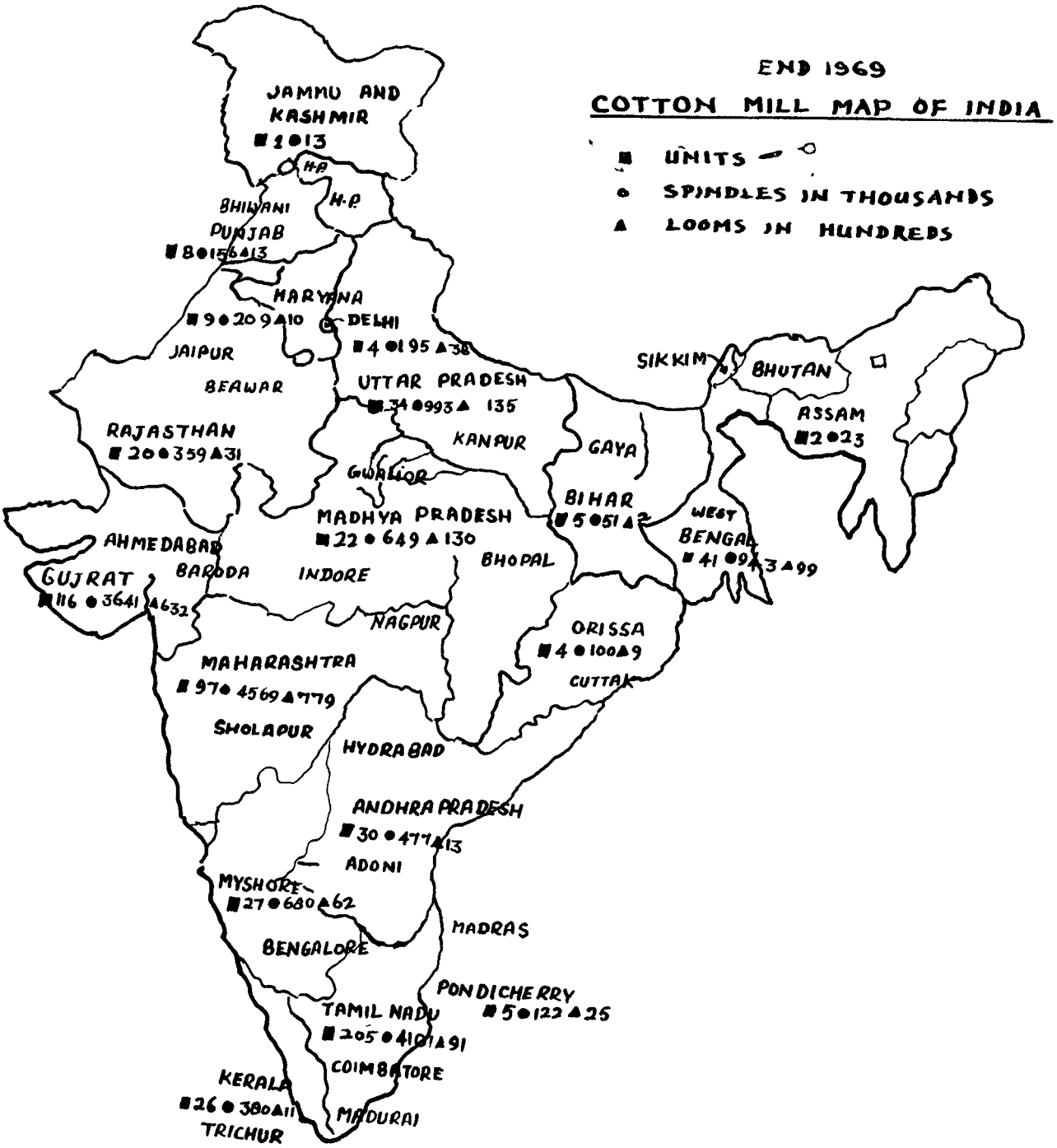
FACULTY OF COMMERCE
ALIGARH MUSLIM UNIVERSITY, ALIGARH
1971

C O N T E N T S

Page

SECTION III: Profitability of Cotton Textile Industry.

----------ooOoo----------


END 1969
COTTON MILL MAP OF INDIA
■ UNITS
● SPINDLES IN THOUSANDS
▲ LOOMS IN HUNDREDS
JAMMU AND KASHMIR
■ 1 ● 13
H.P
BHILWANI
PUNJAB
■ 8 ● 156 ▲ 13
HARYANA
■ 9 ● 209 ▲ 10
DELHI
■ 4 ● 195 ▲ 38
JAIPUR
BEAWAR
RAJASTHAN
■ 20 ● 359 ▲ 31
UTTAR PRADESH
■ 34 ● 993 ▲ 135
KANPUR
GWALIOR
MADHYA PRADESH
■ 22 ● 649 ▲ 130
BHOPAL
INDORE
AHMEDABAD
BARODA
GUJRAT
■ 116 ● 3641 ▲ 632
NAGPUR
MAHARASHTRA
■ 97 ● 4569 ▲ 779
SHOLAPUR
HYDRABAD
ANDHRA PRADESH
■ 30 ● 477 ▲ 13
ADONI
MYSHORE
■ 27 ● 680 ▲ 62
BENGALORE
MADRAS
PONDICHERRY
■ 5 ● 122 ▲ 25
TAMIL NADU
■ 205 ● 410 ▲ 91
COIMBATORE
KERALA
■ 26 ● 380 ▲ 11
TRICHUR
MADURAI
SIKKIM
BHUTAN
ASSAM
■ 2 ● 23
GAYA
BIHAR
■ 5 ● 51 ▲ 2
WEST BENGAL
■ 41 ● 9[illegible]3 ▲ 99
ORISSA
■ 4 ● 100 ▲ 9
CUTTAK

LIST OF TABLES

——oOOoo——

ACKNOWLEDGEMENT

It is my proud privilege to complete this thesis under the able guidance of Professor Q.H. Farooquee, Dean, Faculty of Commerce, who has been my teacher from the inception of my career as a student of Commerce. In spite of his pre-occupations, he gave me the liberty of encroachment on his valuable time. He guided me at all stages of work. I owe him a great debt of gratitude for without his unfailing support this work would have not appeared in the present form.

I am also grateful to my colleagues, Mr. H.H. Zuberi and Mr. Riaz Umar, who have shared my teaching burden during the course of this enquiry. My thanks are also due to my friends Mr. Mohammad Ali, Lecturer, and Mr. Mohd. Sajid, Research Scholar, Faculty of Commerce, for correcting the typed manuscript.

KALIMULLAH KHAN

INTRODUCTION

One of the basic aims of the progressive management is to make the business as enduring and as self-reliant in resources as possible. It aims at financing its development and expansion programmes from plough back profits. It is true that the earnings of a well established company may provide for a large measure of its needs; but even so, continued carrying of the existing capital is still essential. More obvious is the need for additional capital to finance the expansion and modernisation programmes of going concerns and the development of new enterprises. Even then it is a legitimate objective of financial management to attain self-sufficiency in resources.

In this connection, the basic limitations of a less developed economy should be kept in mind. At early stages of industrial development the process of saving and investment is disintegrated. Business appears as a Deficit Unit in the national accounting and draws funds from other Surplus Units in the economy. It is only when the industrial development reaches an advanced stage

that the functions of saving and investment are again integrated.

Viewed in this background, the cotton textile industry being the oldest and largest single organised industry in India, should have attained self-sufficiency. But the industry is at the moment involved in a struggle for its survival. It is passing through a critical stage. The crisis has deepened to such an extent that 88 cotton textile mills out of 668 mills have been closed down. This accounts for about 2.5 million spindles and about 25,000 looms which have been rendered idle. Further, due to their closure more than 95,000 workers have become unemployed and the loss in terms of production per day comes to about 10 lakh metres of cloth.[1]

The present crisis, however, is not of recent origin. Many cotton mills were limping since the early sixties. Cotton shortage delayed and inadequate arrivals of foreign cotton, rising production costs, severe competition, deteriorating financial position and age-old, out-moded and worn out machinery are among the major factors that have retarded the growth of the industry. Most of the mills are running into losses mainly on account of low productivity. Cotton industry in India could not catch up with the technological advancements that have revolutionised the industry in advanced countries. Assessment of industrial efficiency in the Indian textile industry vis-a-vis the textile industry of other countries reveals that India stands on the lowest rung of the ladder in the matter of

---

1. Gupta, R.R. "Crisis of the Indian Cotton Textile Mill Industry"- A Survey. 1968, p.54, and
Cotton Textile Bulletin, February, 1971.

yarn production per worker per year as well as yarn production per spindle hour worked. The speed and rate of production of conventional Indian machinery are 30 per cent to 40 per cent lower than the textile producing countries. In Japan the worker's output is nearly four times than that of India.[1]

The industry has to be saved at all costs because it provides employment to almost a million workers (a little more than one-fifth of the country's labour force), and sustains around a hundred ancillary industries. In the organised sector, this industry's productive capital is roughly one-tenth and its contribution to national income is more than one-fifth. But the industry is fast losing its privileged position. In a steadily shrinking and keenly competitive world market and weak position of home market, insistence on the status-quo would prove calamitous from the point of view of exports and home consumption. Thus, the choice before the country is not between modern industry and old fashioned industry, but either modern industry or no industry at all. There is no half-way between them.

In the ultimate analysis modernisation of the Indian Cotton Textile Industry is inevitable for its survival. In the absence of modernisation the consequent closure of mills will create mass unemployment which will produce more serious repercussions than the small retrenchment that might result through modernisation under a

---

2. Ibid, p. 57.

phased programme. But modernisation needs huge financial resources. It is estimated that the modernisation in the sick mills alone during 1965-66 to 1968-69 had absorbed about Rs. 52 crores. The details furnished by the mills indicate that about 62 per cent of the resources were available internally while for the remaining 38 per cent the mills had to depend on outside agencies. For the Fourth Five Year Plan period, the survey of the Textile Commissioner's Office[1] reveals that the reporting mills have programmed for a modernisation investment of about Rs. 89 crores. The annual average programme has thus increased to Rs. 18 crores, from the previous level of Rs. 13 crores. The pattern of financing the proposed expenditure on modernisation indicates that the internal resources have fallen drastically to about 38 per cent from the level of about 62 per cent for the earlier period 1965-66 to 1968-69. Consequently, greater reliance will have to be placed on external sources of finance.

This is, however, typical to Indian conditions. The concept of modernisation is generally related to established concerns. During the course of a successful operation over a period of years, it is presumed that each firm in the industry should have accumulated resources to meet its requirements to finance rehabilitation, re-organisation, expansion or modernisation. External finance of such a dimension for cotton textile industry is mainly due to two important factors. In the first instance, during the period of 100 years of their existence, cotton textile mills could not keep pace with the technological developments

---

1. Cotton Textile Bulletin issued by the Textile Commissioner's Office, Bombay, September 1969, pp. I to XV.

that have taken place in advanced countries. Consequently, it is difficult to meet out of its resources the heavy cost involved in the replacement of almost all the out of date and obsolete machinery.

Again, there is also lack of foresightedness in the management of funds. The pioneers of this oldest industry were the Managing Agents, who instead of using internal savings for expansion of the same units diversified their investments in the establishment of new industries. In this manner while the cotton textile industry can claim to be the promoter of other industries in India, but failed to retain funds for its own expansion and development. The industry is, therefore, poor today not because of poor earnings in the past, but on account of improper management of its funds and extra-territorial loyalties of the managing agency system.

The problem of the industry today is to amass savings, which is not possible unless it increases its profitability. But the earning capacity of the industry can not improve without modernisation. This has created a vicious circle and consequent stagnation of the growth process of the industry. How this spell is to be broken so that the industry may start generating resources for its own development constitutes the major problem of this study.

SCOPE OF THE ENQUIRY

The study mainly deals with the principle of auto-finance and its application in the management of earnings of cotton textile industry. The basic conclusions drawn have been discussed in the background of

socio-economic policies followed by the Government. In other words, the main purpose of this study is to demonstrate the ways and means through which the earnings of cotton textile industry can be used for its own development and in turn to contribute towards the economic and social advancement of the country. To attain the objective, the study lays down broad policies for the management of earnings and their inter-relationship with the fiscal and monetary policies followed by the Government.

RESEARCH METHODOLOGY

A comparative study of the efficiency of the industry has been made to underline the need for modernisation. Throughout the study, an attempt has been made to arrive at conclusions with the help of economic reasoning, experience derived from cotton textile industry both at home and abroad and from the lessons of economic history. The basic principles of auto-finance and policies of management have been critically analysed in relation to the special conditions prevailing in the cotton textile industry of India. The impact of fiscal policy on the management of earnings has been examined. It is observed that their inter-relationship has significance in revitalizing the process of auto-finance in the cotton textile industry.

For purpose of close scrutiny, the period generally kept in view is the last decade though it has not been strictly followed in every instance. A longer period has, therefore, been taken into

consideration in certain cases to study the trends in the historical perspective.

THE PLAN AND LAYOUT OF THE WORK

Chapter-I, which deals with the historical growth and the present position of the industry, highlights some of its important problems. It points out that the industry is confronted with chronic shortage of raw cotton and abnormal increase in its prices. In advanced economies the production techniques have been altogether revolutionised by means of modern machines. In contrast, Indian cotton textile mills are still harping on the old technique with the result that the productivity has declined and the profitability of the industry has also reached a low level. It is also observed that the industry has laid more emphasis on expansion rather than on modernisation. Chapter-II, therefore, examines the possibility of modernisation. It is noted here that in most of the Indian textile mills, the machinery in use is very old, outmoded, obsolete and worn out which in turn are the main reasons for poor quality, low productivity, increased cost and consequent high selling prices. The need of the time is, therefore, to rehabilitate the Indian textile industry through a speedy process of modernisation. But the modernisation, even in phases implies heavy financial commitment. In Chapter-III, the financial requirements for modernisation have been discussed. It has been estimated that for complete modernisation of the Indian cotton textile industry, the required expenditure shall be roughly in the range of Rs. 1,000 - 1,300 crores. With difficulties being anticipated in

raising internal resources, a considerable portion of the requirements will have to come from term-lending institutions, commercial banks and other organisations. Chapter IV, therefore, examines the position of the capital market and explores the possibility of attracting capital from other agencies. The analysis reveals that the important financial institutions of India like, the Industrial Finance Corporation, The Unit Trust of India and the Industrial Development Bank, from where long term loans can be expected for modernisation are giving comparatively more consideration to the needs of new industries like chemicals, Metal products, Machinery manufacture, electricals and engineering equipment as they afford better promise for future development. Hence, it has been felt that the cotton textile industry should also make its own efforts for maximum possible savings and plough them back in reserves to speed up its process of modernisation. To what extent the industry can accumulate savings depends upon the cost and revenue structure of the industry. This aspect in relation to the Cotton Textile Industry forms the subject matter of Chapter V. The study shows that the industry can not accumulate savings without improving its profitability which in turn depends upon its productivity. It thus establishes that auto-finance and modernisation are inter-related and inter-dependent functions. But savings in the business depend upon several other factors which have been stated in Chapter VI. In this background the financial policy pursued by the cotton textile industry has been discussed in Chapter VII. The findings of this Chapter show that the industry could not accumulate adequate finances on account of high rates of taxes, stable dividend policy and investment of funds outside the business. In the light of

this study, it is found necessary to recommend a stable policy of internal savings in order to enhance the earning ability and the future saving capacity of the industry. The concluding chapter-VIII, therefore, lays down concrete proposals through which the financial policy could break through the vicious circle. To sustain the efforts of financial management to reach the stage of auto-finance some remedy has been sought through fiscal incentives. Since the Dividend policy of the cotton textile industry can not be very much different from that of other industries, it is suggested here that the cotton textile industry should be declared a priority industry under the Indian Income Tax Law and tax concessions be also given to the industry to induce amalgamation so that weaker and uneconomical units be eliminated. Companies can also be induced to retain profits by exempting the portion of plough back profits from taxes. These measures together with the supply of funds from the specialised financial institutions and the proposed Cotton Textile Rehabilitation Corporation, it is concluded, would accelerate the pace of development. Thus, the thesis maintains that the role of auto-finance for modernisation of cotton textile industry should be given due consideration in the financial management of funds.

———————ooOoo———————

CHAPTER - I

GROWTH AND STRUCTURE OF COTTON TEXTILE INDUSTRY IN INDIA

The Indian Cotton Textile Industry is more than a century old and has enjoyed a pivotal position in the economic development of India. In terms of both Machine capacity and production, it occupies the second position in the world, being next only to that of the U.S.A.[1] The Second World War greatly helped its progress. After a temporary set back in 1947, due to the partition of the country, the industry has witnessed many changes in its structure.

The Cotton Textile Industry plays a strategic role in the country's economic development. It not only provides employment to about one million workers constituting about one sixth of workers in all the factories of the country, but also supports a much larger number of workers engaged in allied industries, trades and occupations.[2] Besides this, enormous employment potential is available in distributing agencies and other intermediary industries, such as processing,

---

1. National Productivity Council, "Cotton Textile Industry in U.S.A., Japan, W.Germany and France". Report of the Indian Productivity Team, Dec.1960, p.37.
2. Podar, R.A. "Indian Cotton Mill Industry- Nations Premier Enterprise- Kanpur, 1969, p.14.

pressing and ginning, hand-loom and power-loom, and small scale and cottage industries. A large number of persons are also engaged in manufecturing inputs, such as textile chemicals, textile machinery and its accessories. To these may be added innumerous labourers associated in the cotton cultivation. The industry also provides employment opportunities to those engaged in the sale of output both wholesale and retail.

The industry has a glorious record of foreign trade. It is the third largest foreign exchange earner for the country. It earns through its exports of cotton, cotton mill waste, cotton yarn, cotton fabrics and cotton manufactures, the much needed foreign exchange of more than 1,325 million rupees per annum.[1] The industry through its progressing efforts saves annual foreign exchange of more than 50 million rupees by making the imports of cotton yarn and cotton fabrics unnecessary and, thus, rightly ranks as the premier industry of India.[2] But its share in the total export earnings has been steadily shrinking for some years as it has been gradually losing ground in the highly competitive international markets. For this trend conflicting views are held ranging from high cost to lack of quality consciousness on the part of Indian textile manufacturers.

The industry is now faced with multifarious problems. There is a chronic shortage of cotton and consequent rise in its price sometimes piercing through the statutory ceilings, high prices of machinery and spares, shortage and high cost of power, inefficient

---

1. Podar, R.A. "Indian Cotton Mill Industry- Nation Premier Enterprise, op.cit.,p.16.
2. Ibid, p. 17

maintenance, low productivity of labour, government policies with regard to production and price controls, the increasing competition from mixed and man-made fibre fabrics, development of substitutes specially synthetic products, inadequacy of capital, increasing cost of production and high incidence of taxation particularly of excise are some of the important factors retarding its growth. Today the crisis has developed to such an extent that more than 10 per cent cotton mills have been closed down making 2.5 million spindles and 30,000 looms completely idle and 65,000 workers jobless as well as daily production loss of 10 lakh metres of cloth.[1]

However, there are some redeeming features. A sheltered home market protected completely from competition from imports and the rising demand from the increasing population, better purchasing power due to improving standard of living ensures its future prospects. But stepping up improved and economical production for export and home consumption require attention towards proper rehabilitation and rationalisation of the industry. For a clear understanding of the need for rationalisation, it is felt necessary to review the progress of the industry at different stages of its development.

PROBLEMS AND PROSPECTS OF THE COTTON TEXTILE INDUSTRY:

The purpose of the present historical resume is to highlight the chief features and present problems of the industry.

The Textile Industry comprising the textile mills on the one hand

---

1. Gupta, R.R. "Crisis of the Indian Cotton Textile Mill Industry- A Survey 1968, p.34.

and the largely dispersed handlooms and power looms on the other meet the clothing requirements of the country and, in addition, earns for the country substantial amount of foreign exchange through export of cloth. While the handlooms have been in the country from time immemorial, the textile mill industry started only in the second half of the nineteenth century and the powerlooms came even later. The first textile mill in the country was established in Bombay in 1854 with 30,000 spindles. There was a rapid increase in the number of spindles and by 1900, there were over 190 mills with about 50 lakhs spindles and 40,000 looms.[1] By the commencement of the First World War, the number of spindles and looms installed in the mill industry was 65.97 lakhs and 94 thousands respectively. The inter-war period witnessed a further expansion and by 1939 the spindles had increased to over 10 millions and looms to over 2 lakhs.[2] During the Second World War, the expansion was almost negligible. Production in the mill industry during the war period was almost fully geared to the supply of cloth for Defence Services, thereby creating scope for the decentralised sector, particularly the handlooms, to cater to the needs of the civilian public in the country. With the advent of the planning era in 1951, the policy has been to fix production targets after taking into account the need for supporting village and small industries. In the textile industry, the handloom sector figures prominently in the allocation of plan targets for cloth production. The overall policy in fixing the production programme has been governed

---

1. Pearse Arno, S: Cotton Industry of India, Taylor Garnet Evans & Co. Ltd., England. p.8
2. Ibid, p.9

by the principles of:

1. reservation of spheres of production;
2. non-expansion of the capacity of the large-scale industry;
3. imposition of a cess on the large-scale industry;
4. arrangement for supply of raw materials; and
5. co-ordination for research, training, etc.

The targets fixed, therefore, limited the expansion of the mill sector and emphasis had been mainly on the stepping up of production in the decentralised sector, primarily the handlooms, so that the increased demand for cloth on account of the increase both in population and in the per capita consumption could be met by the decentralised sector. Installation of additional looms in the mill industry was confined to the extent found necessary for production of quality fabrics for export. After partition, the number of mills left in India was 356 with 10.07 million spindles and over 1.93 lakh looms.[1] The growth of the industry since 1948 is given in Table -I.

TABLE - I

GROWTH OF THE MILL INDUSTRY
(spindles in millions, looms in lakhs)

YEAR	COMPOSITE MILLS			SPINNING MILLS		TOTAL SPINDLES	TOTAL LOOMS
	Numbers	Spindles	Looms	Number	Spindles		
1948	268	8.50	1.93	88	1.57	10.07	1.93
1951	275	9.16	1.95	103	1.84	11.00	1.95
1956	291	10.19	2.03	121	1.86	12.05	2.03
1961	287	10.61	1.99	192	3.06	13.67	1.99
1966	292	11.76	2.09	283	4.36	16.12	2.09
1970	290	12.20	2.08	366	5.46	17.66	2.08

SOURCE: Indian Textile Bulletin, issued by Office of the Textile Commissioner, Bombay, Jan. 1971, p.3 and the Economic Times, 15 Sep., 1971

1. Govil, K.L. Cotton Industry of India- Prospects and Retrospects, Hind Kitab, Bombay, 1965. p.16

The above table indicates a fast regular increase in the number of spinning mills whose number in 1971 increased by more than four times from the 1948 level. But in case of composite mills slow regular increase is witnessed only upto 1956. Their number went down in 1961 and after a slight improvement in 1966, the number again decreased in 1970 and 1971. Similar is the trend in case of spindles and looms. While there has been about 73 per cent increase in spindles, there has practically been no increase in looms since 1948. The industry was allowed to expand on the spinning side to cater to the ever growing demands for yarn by the decentralised sector, mainly handlooms.

LOCATION:

When the industry was not regulated under any specific pattern, it naturally sought its location in important cotton growing areas, near the ports, which had the facility for import of cotton and in the former princely states, where special privileges and inducements by way of tax concessions and free land were available. The spinning mills tended to align themselves with the hand looms which provided a permanent and sizable market for the yarn produced. Thus, a large number of spinning mills sprang up in essentially handloom areas. All these developments resulted in regional imbalances in the location of the industry. At present Bombay and Ahmedabad together account for about 60 per cent of the total weaving capacity of the textile mill industry.[1] In consonance with the objective of balanced development of the different parts of the country and extension of benefits of economic progress to

---

1. Govil, K.L. "Cotton Industry of India", op.cit. p.57

the less developed regions emphasised in the Third Plan, regional imbalances were sought to be rectified by allowing more spindleage capacity to those States which were backward in this respect. Thus, for the two million spindles allotted to the States for setting up of new spinning mills in the Third Plan period, all the States were classified into three broad groups according to the extent of development of the textile industry in them and larger allocations were made to less developed regions. States like Andhra Pradesh, Bihar and Uttar Pradesh were given a larger allotment of spindles, while Madhya Pradesh, Kerala, Orissa, Punjab, Assam and Rajasthan were placed in the next category. Maharashtra, Gujrat and Madras where the industry is more concentrated, were allotted relatively smaller number of spindles.[1]

STRUCTURE:

The mill industry at present consists of 656 mills of which 290 are composite and 366 spinning. The present installed capacity is given in Table-II. The table clearly shows, in order of importance, the concentration of weaving mills in the States of Maharashtra and Gujarat and spinning mills in Maharashtra, Tamilnadu and Gujrat. In Gujrat and Maharashtra the cities of Ahmedabad and Bombay are the main centres accounting for more than 50 per cent of number of mills, spindleage and loomage- under the influence of factors of production.

---

1. Govil, K.L. 'Cotton Industry of India', op.cit. p. 57.

TABLE - II

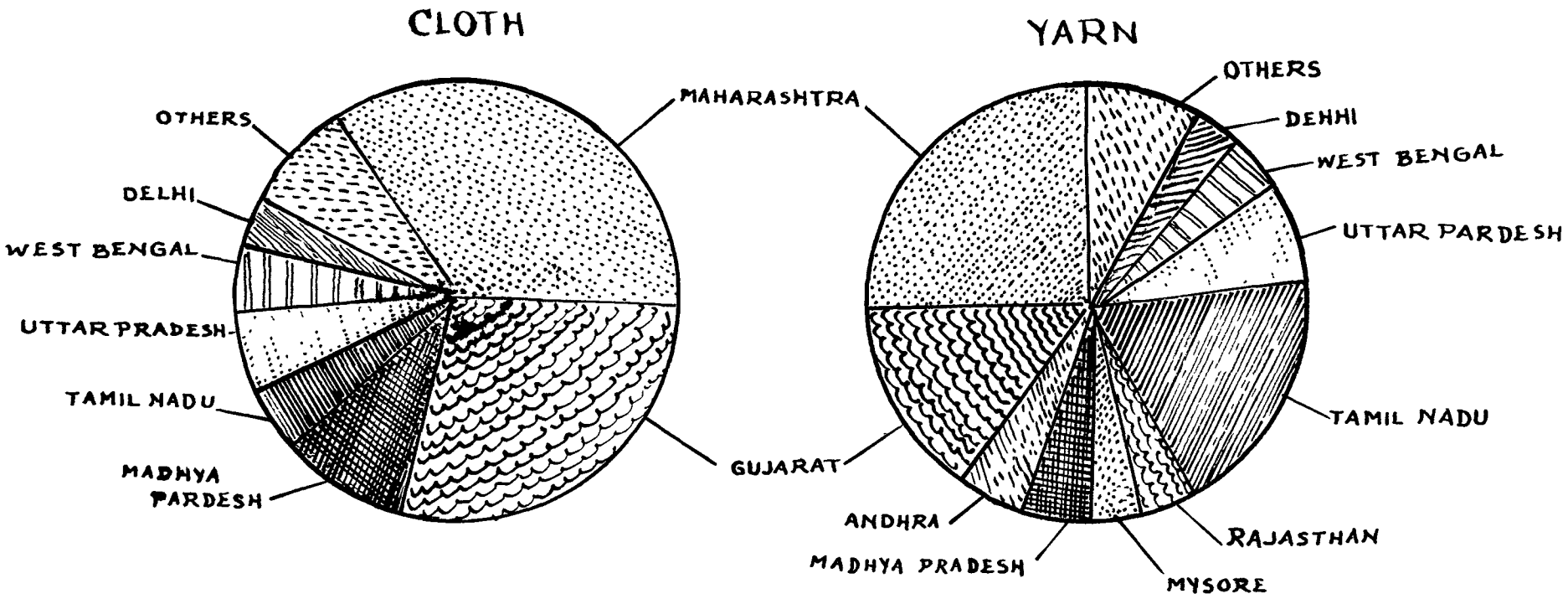
COTTON TEXTILE INDUSTRY- INSTALLED CAPACITY- STATES
(as on 31st December, 1970)

STATE	NUMBER OF MILLS	NUMBER OF SPINDLES	NUMBER OF LOOMS
Andhra Pradesh	30	475,684	1,276
Assam	2	23,040	—
Bihar	5	50,944	225
Gujrat	116	3,615,855	62,996
(a) Ahmedabad city	70	2,486,284	46,277
(b) Rest of Gujrat	46	1,129,571	16,719
Haryana	9	208,804	978
Jammu and Kashmir	1	12,600	—
Kerala	25	378,468	1,118
Madhya Pradesh	22	645,937	13,063
Maharashtra	96	4,574,835	78,250
(a) Bombay city	59	3,555,750	63,122
(b) Rest of Maharashtra	37	1,019,085	15,128
Mysore	27	670,910	6,072
Orissa	4	100,180	866
Punjab	8	129,174	1,300
Rajasthan	19	344,810	3,110
Tamilnadu	203	4,079,036	9,253
Uttar Pradesh	34	969,044	13,464
(a) Kanpur city	14	522,018	11,306
(b) Rest of U.P.	20	447,026	2,158
West Bengal	46	942,094	9,899
Delhi	4	194,712	3,849
Pondicherry	5	121,608	2,343
TOTAL (1970)	656	17,537,735	208,062
TOTAL 1971 (Provisional)	668	17,930,000	209,000

SOURCE: Indian Textile Bulletin, April,1971, op.cit. p.19, and Economic Times, September 15,1971.

COTTON CLOTH AND YARN PRODUCTION

1969



CAPACITY, TARGETS AND PRODUCTION:

The total yarn production by the mills and cloth production by composite mills and the decentralised sector (handloom and powerloom) are given below in Table-III.

TABLE - III

CAPACITY AND PRODUCTION OF YARN AND CLOTH

(million metres)

YEAR	Yarn Production (million kgs.)	CLOTH PRODUCTION		
		Mills	Decentralised Sector	Total
1948	657	3,949	1,151	5,100
1950	533	3,351	911	4,262
1955	739	4,658	1,620	6,278
1960	788	4,616	2,103	6,629
1969	939	4,587	3,056	7,643
1970	962	4,366	3,530	7,896

SOURCE: Indian Textile Bulletin, April,1971, op.cit. p.4

It will be seen from the above figures that yarn and cloth production after a decline in 1950 from 1948 level showed an upward trend. The total yarn production by the mill industry recorded a rise of over 46 per cent since 1948, and cloth production by over 10 per cent, but cloth production from Mill sector is showing downward trend since 1955. The total cloth production by the decentralised sector recorded an increase of over 200 per cent during the same period.

In the First Five Year Plan, it was assumed that the production capacity then existing in consumer goods industries including cotton mill industry was more or less adequate to meet the increase in demand envisaged. The target for cloth production was fixed at 4,700 yards for the mill sector and 1,700 yards for the handlooms to be reached by the end of the plan period. The mill sector was also required to produce 1,640 million lbs. of yarn.[1] In 1955, the Planning Commission constituted the Village and Small Industries (Second Five Year Plan) Committee in order to prepare, in the light of the provision made in the draft Plan frame, a scheme for the utilisation of the resources to be earmarked for the purpose of development of these industries as an integral part of the Second Five Year Plan. The Committee was required to frame its scheme with the objective of having the bulk of the increased production during the Plan period of consumer goods in common demand from the village and small industries, progressively increasing the employment in these industries and organising production and marketing in the main on cooperative lines. The Committee recommended that, as far as the cotton textile industry was concerned, production by mills and powerlooms should be limited to the level already reached, and that all the increased demand for cloth, which the Committee computed at 1,700 million yards raising the total cloth production by all sectors to 8,400 million yards, should be met by expansion of handloom production. The textile policy for the Second Plan announced in 1956, however, distributed the estimated production of 1,700 million yards against the additional demand among the different sectors as

---

1. Report of the Textile Enquiry Committee, 1958. Govt. of India, Manager of Publications, Civil Lines, Delhi- p. 43.

follows:

	million yds.
1. Handloom industry from mill yarn	700
2. Handloom industry from Ambar Charkha	300
3. Powerloom by the introduction of 35,000 looms in the handloom sector	200
4. Mills by introducing 18,000 automatic looms specifically for export	350
5. Reserve for subsequent allotment	150
TOTAL	1,700 m.yds.

The progress of production both by the mill and the handloom sectors was reviewed by the Textile Enquiry Committee (1958), who considered that the target fixed for the organised and decentralised sectors should be pruned down to 8,000 million yards. The overall target fixed in the Third Plan for cloth production by the textile mills and the decentralised sector is 9,300 million yards, which would give on the basis of the latest population figures a per capita availability of 17.2 yards. The Plan provides for-[1]

(i) increase in the loom capacity of the Textile mills by 25,000 automatic looms specifically to produce quality fabrics for export; and

(ii) increase in the spindle capacity of the textile mill industry, both by allowing increase in the spindles in the existing mills necessary to balance the production

1. Report of the Textile Enquiry Committee 1958- op. cit. p. 57

equipment in the different sections and by licensing new spinning units in the different parts of the country.

A total of three million spindles was covered on this basis of allocation. It is reported that a fresh appraisal made recently of the actual installation of spindles and looms, for which licenses had been granted, revealed a tardy progress. A decision was therefore, taken by the Government to allow marginal expansion in the existing spinning and composite mills by about 7½ to 10 per cent in the spindle capacity and 10 per cent in the loom capacity. For the first time, the spinning units were also given the option to make themselves composite units by installing not more than 100 looms each. These measures are understood to have been taken in order to induce the industry to set up the required capacity with as little delay as possible, recognising the inevitable time-lag which takes place between the grant of licenses for new units and the actual commissioning of capacity.

An increasing emphasis is being laid on the setting up of spinning mills in the co-operative fold in order to enable adequate supply of yarn of proper quality at reasonable prices to handlooms. So far 58 co-operative spinning mills with a total capacity of about eight lakh spindles have been licensed in the different parts of the country, of which fourteen mills with a total capacity of about two lakh spindles have gone into production.[1] The broad set-up of the textile industry, therefore, would be:-

---

1. Thackersey, KMD - Indian Cotton Textile Industry, Claridge & Co.Ltd., Bombay, 1969, p. 87.

(1) Textile spinning mills;

(2) Textile composite mills; and

(3) Textile spinning mills run on cooperative lines for handloom and powerloom weavers.

One important factor governing the size of textile mill units is the economic capacity of the units. It has been recognised that the minimum economic capacity of a composite mill should be 12,000 spindles and 300 looms. It has also been recognised that while this is the minimum economic capacity, the number of spindles should eventually be increased to 25,000 for attaining maximum economy.[1] For mills having less than this capacity, expansion of spindles to reach this level has also been recently allowed. There is also a growing emphasis on the installation of automatic looms which would produce quality cloth.

Broadly speaking, the pattern of cloth production by mills in the country is that, out of the total production of about 4,500 million metres, coarse cloth forms 18 per cent; medium B 30 per cent; medium A 41 per cent, and fine and superfine together 11 per cent, which is almost divided equally between fine and superfine.[2] The textile mill industry is providing direct employment to about 9 lakhs of workers and the total capital employed by the industry has been estimated to be of the order of Rs. 450 crores, about 50 per cent of which would constitute the net block.[3] The industry requires to be rehabilitated on a large scale. There is also a pressing demand for the industry

---

1. Thackersey KMD, Indian Cotton Textile Industry, op.cit. p.95.
2. Cotton Textile Export Promotion Council, Bombay,"Hand Book of Indian Cotton Textile Industry, 1970, p.11
3. Govil, K.L. "Cotton Industry of India", op. cit. p.153.

for installation of automatic machines including looms which will have the effect of reducing the cost of production and improving the quality of goods both from the point of view of the consumers in the country and for sale in competition in the foreign markets. The Working Group for the Cotton Textile Industry appointed in 1959 by the National Industrial Development Corporation to estimate the requirements of the industry for rehabilitation came to the conclusion that, for a complete renovation, it would cost nearly Rs. 800 crores at the then prevailing level of prices of machinery.

PRESENT POSITION OF THE TEXTILE INDUSTRY:

As against 193 mills with 49.5 lakh spindles and over 40,000 looms in 1900, there were 656 mills, including 290 composite mills with 174.07 lakh spindles and 2.08 lakh looms in 1970.[1] The phenomenal growth of the industry is largely due to the increasing demand for its product from the population which is rapidly increasing from year to year in the country. The population rose from 439.2 million in 1961 to 511.3 million in 1967, i.e. by 16.4 per cent. The growth of the industry in terms of mills, spindles and looms are given in Table-I.

The table reveals that the number of spinning mills has shown a significant increase by about 90 per cent in a period of nine years from 1960. The increase was mainly due to the encouragement given to the decentralised sector. Since 1960, the number of composite mills

---

1. Indian Textile Bulletin, Issued by the Office of the Textile Commissioner, Bombay, January,1971, p.7.

has remained more or less at the same level while the expansion of loomage has been only marginal.

EMPLOYMENT:

The average daily number of workers actually employed in the industry during the years from 1960 to 1970 is given in Table-IV.

TABLE - IV

AVERAGE NUMBER OF WORKERS ON ROLL AND ACTUAL NUMBER EMPLOYED

(in thousands)

PERIOD	Average Number of Persons on Rolls			Average Number of Workers Actually Employed			
	MEN	WOMEN	TOTAL	I-SHIFT	II-SHIFT	III-SHIFT	TOTAL
1960	338	57	895	416	263	93	772
1965	917	53	970	422	271	138	831
1966	916	51	967	418	267	137	822
1967	884	47	931	404	254	130	788
1968	883	45	928	400	254	135	789
1969	866	42	908	383	243	134	760
1970	858	40	898	371	235	134	740

SOURCE: INDIAN TEXTILE BULLETIN, April, 1971.

The above table shows that between 1960 and 1970, the strength of labour actually employed in the industry fluctuated within a narrow range except during the year 1965 when it reached the high water mark of 8.31 lakhs.

UNITS ON EMPLOYMENT BASIS:

The distribution of units according to employment position as on 31st December, 1964, is shown in the table below.

DISTRIBUTION OF UNITS ACCORDING TO EMPLOYMENT POSITION

1. Number of units as in December, 1964 ..	561
2. Number of units for which information is available	521
3. No. of units employing 500 workers or less ..	146
4. No. of units employing between 501 and 1000 workers	81
5. No. of units employing between 1001 and 2000 workers	116
6. No. of units employing over 2000 workers ...	178

SOURCE: Textile Commissioner's Directory of Cotton Textile Mills, 1964.

The number of units employing more than 2,000 workers constituted about 34 per cent of the total mills for which information is available. While about 22 per cent employed between 1,001 and 2,000 workers, about 16 per cent employed between 501 and 1,000 workers and about 28 per cent employed 500 workers or below.

It may be further mentioned that about 3 per cent of the total number of units had less than 100 workers on their rolls at the end of the year 1964.

STATE-WISE DISTRIBUTION OF MILLS, SPINDLES, etc:

The distribution of mills with particulars of machine activity and the labour employed State-wise as in December, 1967 is set out in

Table- II.

Although the cotton textile mills are generally scattered all over the country, the Table shows that there has been a tendency to concentrate only in certain States viz. Maharashtra, Gujrat, Tamil Nadu, West Bengal, Madhya Pradesh and Uttar Pradesh.

The Maharashtra State having 96 mills including 77 composite mills accounts for about 27 per cent of the total spindleage while Gujrat with 116 mills including 91 composite mills covers about 21 per cent of the total spindleage. Including the spindles in 24 composite mills, the Tamil Nadu State which has 203 spinning mills, has about 23 per cent of the total spindleage in the country.

Tamil Nadu State, though occupies the top position in the number of spinning mills, has only 8 per cent of the composite mills whereas Gujrat and Maharashtra are having 31 per cent and 27 perccent respectively of the composite mills in the country.

About 38 per cent of the total looms in the country are in Maharashtra. Next in order are Gujrat with about 30 per cent, Uttar Pradesh and Madhya Pradesh each with about 6 per cent and West Bengal with about 5 per cent. It is still less in Tamil Nadu, which is nearly 4.5 per cent.

In terms of the daily average number of workers actually employed, Maharashtra ranks first with about 30 per cent of the total workers employed in the country while Gujrat follows with about 23 per cent and Tamil Nadu with about 13 per cent.

Even in the different States, the industry is concentrated only at a few centres. For example, about 62 per cent of the mills, 78 per cent of the spindles, 81 per cent of the looms and 79 per cent of the workers in Maharashtra State are located in the city of Bombay which also accounts for about 15 per cent of the total number of mills, 27 per cent of the spindles, 38 per cent of the looms and 30 per cent of the workers in the country. Ahmedabad, Coimbatore and Kanpur are similar examples. About 61 per cent of the mills in the State of Gujrat are located in the city of Ahmedabad with about 70 per cent of the spindles, 74 per cent of the loomage and 75 per cent of the workers in the industry in the State. The number of mills, spindles, looms and workers in the city of Kanpur constitute about 45 per cent, 56 per cent, 84 per cent and 67 per cent respectively in relation to the industry in the State. In the light of the above figures, it is a matter for consideration as to whether expansion of the industry should be permitted by further concentration in such centres.

PRODUCTION AND CONSUMPTION OF RAW COTTON:

Cotton accounts for nearly 50 per cent of the cost of production of cloth and more in respect of yarn. Indian cotton is mainly of short and medium-staple lengths. The production of long-staple cotton in India is very much limited. India has a larger area under cotton than any other cotton producing country in the world. But it may be mentioned that the yield per acre is the lowest in the world as may be seen from Table- V.

It is significant to note that even in Pakistan, the yield per acre is twice as much as in India.

TABLE - V

COTTON YIELD : SELECTED COUNTRIES

(kgs. per hectare)

S.No.	COUNTRY	Average Yield (1965-66 to 1969-70)
1.	U.S.S.R.	809
2.	MEXICO	699
3.	U.A.R.	676
4.	SYRIA	549
5.	U.S.A.	539
6.	PERU	534
7.	SUDAN	410
8.	CHINA	293
9.	PAKISTAN	290
10.	BRAZIL	247
11.	INDIA	133

SOURCE: The Economic Times, September 15,1971.

Indian cotton was for a long time the cheapest in the world. It is at present 20 to 30 per cent dearer than comparable foreign varieties after making allowance for their high spinning value. This is due to insufficient production of indigenous cotton. In 1963-64, the record crop of 6.13 million bales (of 180 kgs.) fell short of the Plan target of 6.18 million bales.[1] The 1965-66 crop was estimated at 5.34 million bales as against the Plan target of 7.07 million bales.

1. Indian Cotton Mills' Federation Journal, February, 1968.

Not more than 5.07 million bales was estimated from the 1966-67 crop.[1] However, the 1967-68 harvest was estimated to yield about 6.27 million bales[2], and for 1968-69, it is estimated at 61 lakh bales.

The low production of cotton is partly attributed to the vagaries of the weather on which the production in about 50 per cent of the total area of around 20 million acres under cotton in the country depends.

Because of the special type of machinery installed in some of the mills, on which only finer quality of yarn can be produced, and of the requirement of the decentralised sector which produces larger proportion of sarees and dhoties from finer quality of yarn, the need for the import of long-staple cotton is great.

Table- VI indicates the production of indigenous cotton for mill consumption and the total mill consumption of cotton. It clearly shows that the total mill consumption of cotton has always been in excess of the indigenous availability.

TABLE - VI

AVERAGE PRODUCTION AND MILL CONSUMPTION OF COTTON

PERIOD	Availability of indigenous cotton for mill consumption	MILL CONSUMPTION		
		Indian	Foreign	Total
First Plan Period (1951-56)	3,815	3,798	778	4,576
Second Plan Period (1956-61)	4,518	4,476	680	5,156
Third Plan Period (1961-66)	5,260	5,159	767	5,926
1968-69	6,120	5,604	595	6,199
1969-70	5,920	5,657	714	6,371

SOURCE: Bombay Cotton Annual, 1966-67, No.48, and The Economic Times, Sept. 1971.

1. Indian Cotton Mills' Report for the year 1967.
2. "Commerce Research Bureau", Commerce 9th November, 1968, pp.994.

PRODUCTION OF YARN AND CLOTH:

Despite certain restrictions in the allotment of spindles and looms, production and distribution and price controls, the mill industry could utilise the available resources to the extent possible and maintain the production. Table- VII shows the production of yarn and cloth from 1960-61 to 1970-71.

TABLE - VII

MILL PRODUCTION OF COTTON TEXTILES

YEAR (ended 31 March)	YARN (million kgs.)	CLOTH (million metres)
1960-61	801	4,645
1965-66	907	4,400
1968-69	972	4,298
1969-70	962	4,191
1970-71 (Prov.)	939	4,090

SOURCE: The Economic Times, September 15,1971.

The Table shows that the industry registered a peak production of about 972 million kgs. of yarn in 1968-69, which was 22 per cent over the production in 1960-61. Thereafter it declined, and in 1970-71 the fall was by about 4 per cent over 1968-69. Similarly, the production of cloth of about 4,645 million metres was the highest in 1960-61. The fall in cloth production in 1970-71 was by 12 per cent over 1960-61.

Table-VIII sets out the particulars of total yarn production, civil delivery (delivery to the decentralised sector), export delivery and yarn consumed for weaving cloth by mills for the years from 1965 to 1970.

TABLE - VII

YARN PRODUCTION, CIVIL DELIVERY, ETC.

(million kgs.)

YEAR	Total Production	Civil Delivery	Export Delivery	Cloth Weaving By Mills
1965	893	317(35)	19(1)	553(62)
1966	965	338(35)	13(1)	591(61)
1967	939	337(37)	11(1)	568(60)
1968	901	342(38)	17(2)	531(59)
1969	896	350(39)	10(1)	514(57)
1970	848	356(39)	10(1)	508(56)

N.B: The figures in brackets indicate the percentage to the total production.

SOURCE: (i) Indian Textile Industry, 1969, Annual Number
(ii) Indian Textile Bulletin, April,1970.
(iii) The Economic Times, September 15,1971.

The figures in the above table show that most of the yarn produced is consumed by the home market, leaving only a small quantity for export delivery. Besides, it may be noticed that the proportionate consumption of yarn by the decentralised sector has been showing a gradual upward trend while by the mill sector has been showing a gradual downward trend from year to year.

PATTERN OF PRODUCTION OF CLOTH:

The bulk of cotton textile production consists of medium counts. The relative production in the various categories of cloth from 1960 to 1970 can be seen from the percentage distribution given in Table - IX.

TABLE - IX

PERCENTAGE DISTRIBUTION OF VARIOUS CATEGORIES OF CLOTH

YEAR	CATEGORIES OF CLOTH (Percentage to Total)					
	Coarse	Lower Medium	Higher Medium	All Medium (Cols.3+4)	Fine	Superfine
1	2	3	4	5	6	7
1966	18.3	29.9	40.9	70.8	4.6	6.3
1967	18.7	31.7	38.8	70.5	4.2	6.6
1968	17.5	30.6	40.1	70.7	4.8	7.0
1969	17.0	26.7	43.9	70.6	4.9	7.5
1970	16.7	27.9	43.2	71.1	4.1	8.1

SOURCE: Indian Textile Bulletin, April,1971.

Although the proportionate production in all-medium category in the total production has been showing a decline, still in 1970, it was constituting about 71 per cent of the total production. The proportionate production of fine and superfine categories has been ranging between about 9 and 12 per cent with only marginal variations during these years. But in the production of coarse category, the proportion of the production has been indicating a gradual increase upto 1967 and thereafter it declined.

LABOUR PRODUCTIVITY:

The Cotton Textile Industry in India does not enjoy the advantage of high productivity of labour when compared with other textile producing countries. The industry in India was employing a large number of workers to do the same job in spinning sector and the weaving sector as compared to the U.S. Cotton Textile Industry. It may, however, be mentioned that the factors of production in the different countries widely vary. The production depends upon the type of machinery, working conditions, types of goods produced, etc., in the different countries. The number of workers employed for 1,000 spindles upto spindle point varies from about 4 to 10 in India, while in Japan, it varies from about 1.5 to 4.5. Productivity in Japanese textile industry increased by 32.3 per cent during the years 1960 - 64 i.e. an average increase of 6.5 per cent per annum. During the same period, among the member mills of the South India Textile Research Association (for which accurate and continuous figures are available), the increase in productivity has been of the order of 5 per cent per annum.[1] Therefore, it is obvious that instead of bridging the gap in productivity between India and other countries, the gap is actually widening. The causes of low productivity in India can be summed up as follows:

The Cotton Textile Industry has always been considered a labour intensive industry and a means of employing large number of people.

---

1. "A Visit to Japan's Cotton Textile Industry"- Report of the Indian Cotton Mills' Federation's Delegation- 1965.

While this was so many years ago, technological developments in the past decade have made it a capital intensive industry. This change has taken place in India, but not to the extent of other textile producing countries. The machinery and equipment used in India are still of the conventional type and their speeds and productions are 30 to 40 per cent lower than in other textile producing countries. The standard of maintenance and working conditions in some of the mills are such that a large increase in productivity would be difficult without an improvement in these areas. In some of the older mills, the buildings as well as the layout of machines are such that easy movement of material is not possible and the mechanical transport can not be used for that purpose. Further, while schemes of rationalisation have been introduced successfully in some mills, it has not been possible in others in spite of good working conditions because of opposition from certain sections of labour and the fear of unemployment.[1]

But if there is to be a rapid increase in productivity, a significant improvement in all these areas is essential.

EXPORT OF COTTON TEXTILE GOODS:

Indian export trade is predominantly organised and carried out by small and medium sized private enterprises as distinct from the manufacturers. There is, however, a distinct trend towards mills undertaking direct export. Greys constitute the major portion of the exports, and the bulk of the trade consists of only course and medium counts. The principal types of textile goods exported are

1. Report of the Working Group for the Cotton Textile Industry, 1960, Govt. of India, Govt. Central Press, Bombay, p. 74.

sheetings, furnishing, towelling, blankets, canvas and shirtings. A notable development has been the growth of India's textile trade with the Eastern Europe, expansion of exports with the U.S.A., a steady market with Canada and a new opening of trade with Russia. However, the export performance as a whole has been steadily on the decline as the industry has been confronted with problems caused by such factors as increased competition from the other countries like Pakistan, Hong Kong, Taiwan, Korea and Japan, development of the textile industry in U.A.R. and in some of the countries, high cost of production and some complaints of non-maintenance of quality.[1]

Cotton Textiles, ranking third as foreign exchange earner for the country, after Jute and tea, earned an income of Rs. 344 crores from exports (including exports of decentralised sector) of cotton piece goods, yarn, hosiery waste and other manufactures during the years from 1966 to 1970. But the foreign exchange expenditure during the same period on account of imports of raw cotton, twist and yarn, machinery, dyes and chemicals, fuel, oil and lubricants, etc., was placed at Rs. 538 crores, indicating a net deficit of Rs. 194 crores in the foreign exchange position of the industry. The cotton textile export earnings constituted about 9 per cent to the total value of exports during the period 1964-65 to 1969-70 as against about 21 per cent from jute and about 17 per cent from tea. The particulars can be seen from Table- X.

---

1. Report of the Cotton Textile Export Promotion Council, 1969, op. cit., p. 165.

TABLE - X

VALUE OF EXPORTS

(Rs. in Crores)

YEAR	Total Exports	Jute Manufacture	TEA	Cotton Manufacture
1964-65	660.2	135.2	123.6	69.7
1965-66	679.7	145.9	122.6	60.1
1966-67	713.6	149.5	129.8	96.7
1967-68	793.2	154.2	123.4	64.5
1968-69	816.3	168.2	124.6	71.8
1969-70	809.6	182.9	114.8	74.4

SOURCE: (1) Fourth Five Year Plan, Draft Outline
(2) Hand-book of Statistics on Cotton Textile Industry, June, 1971.

Table- XI indicates the quantum of yarn and mill cloth manufactured in and exported from India during the years from 1966 to 1970.

TABLE - XI

YARN AND MILL CLOTH MANUFACTURED AND EXPORTED

YEAR	YARN		MILL CLOTH	
	Free Yarn Availability	Exported	Manufactured	Exported
	(in million kgs.)		(in million Metres)	
1966	327	14	4,432	486
1967	360	13	4,684	567
1968	355	13	4,567	507
1969	357	16	4,239	425
1970	368	10	4,098	410

SOURCE: (i) Indian Textile Bulletin, February, 1971.
(ii) Hand-book of Statistics on Cotton Textile Industry, June,1971.

It would appear from Table XI that the proportion of yarn exported to free yarn availability was small, being about 2 to 4 per cent whereas the proportion of the mill cloth exported to the total cloth produced varied between 10 and 14 per cent during the years from 1966 to 1970.

Table-XII shows the destination-wise exports of mill-made cloth in 1970. The table reveals that India has been maintaining

TABLE - XII

DESTINATION-WISE EXPORTS OF MILL-MADE CLOTH (1970)

NAME OF THE COUNTRY	EXPORTS
Aden	6.98
Afghanistan	10.87
Australia	15.63
Canada	13.22
Ceylon	6.87
Ethiopia	0.67
Indonesia	11.20
Malaysia	10.28
New Zealand	6.93
Persian Gulf Ports	12.00
Qatar	36.33
U.K.	148.17
U.S.A.	41.32
Others	89.09
TOTAL:	409.56

SOURCE: Hand-Book of Statistics on Cotton Textile Industry, 1970.

export link with several countries. In 1970, the export trade with the U.K. was the highest being 36 per cent of the total export made

during the year. While the trade with several other countries was not so large, India had exported about 10 per cent of its total export to the U.S.A. and 9 per cent to Sudan.

IMPORTS OF COTTON YARN AND COTTON FABRICS:

The value of imports of cotton yarn as well as cotton fabrics has been reduced to insignificant level. In regard to cotton yarn, it was Rs. 0.55 lakh in 1970 as against Rs. 52.89 lakhs in 1960 and in respect of cloth, it was Rs. 3.36 lakhs in 1970 as against Rs. 79.88 lakhs in 1960. The value of imports from 1960 to 1970 is furnished in Table- XIII.

TABLE - XIII

VALUE OF IMPORTS OF COTTON YARN AND CLOTH

(Rs. in Lakhs)

YEAR	IMPORTS	
	YARN	CLOTH
1960	52.89	79.88
1966	20.86	8.83
1967	6.94	3.34
1968	1.69	1.60
1969	1.16	3.11
1970	0.55	3.36

SOURCE: Indian Textile Bulletin, April, 1971.

TEXTILE MACHINERY AND ITS ACCESSORIES:

The success of cotton textile industry depends, in no small measure, on the availability of adequate machinery of the requisite standard. The machinery industry in turn bases its growth on the

prosperity of the textile industry. Despite the fact that the textile industry is more than 100 years old, and India being one of the largest textile producers in the world, the country was for a long time wholly depending for its requirements on imported machinery and other accessories, most of which came from the United Kingdom and Japan.

In 1946-47, the first textile machinery unit was established and the real expansion of the industry started with the introduction of the planned economic development in the country. From 11 textile machinery units at the beginning of the First Plan (1951), the number rose to 91 at the end of 1961 and around 275 units in 1970. As a result, the cotton textile industry is now able to draw about 85 per cent of its requirements of capital goods, right from the stage of preparatory, spinning, winding, warping, weaving, bleaching, dyeing and printing, to final finishing from the internal production. The value of home production of major items of machinery, which was about 5 crores of rupees in 1955 reached the level of about 24 crores of rupees in 1965. The exports of textile machinery, accessories and stores which amounted to Rs. 40.31 lakhs in 1968 increasing to Rs.130.18 lakhs in 1969. The particulars of the value of textile machinery made in India and the foreign trade in textile machinery including spares and accessories are given in Table-XIV.

TABLE - XIV

PRODUCTION AND FOREIGN TRADE IN TEXTILE MACHINERY

(Rs. in Lakhs)

YEAR	Value of Textile Machinery made in India		Foreign Trade in Textile Machinery	
	Spares and Accessories	Major Items of Machinery	Exports	Imports
1966	1,736.54	1,852.25	26.00	2,370.4
1967	2,288.15	2,162.55	26.96	2,730.6
1968	2,438.93	2,422.40	40.31	2,843.2
1969	2,818.21	1,893.00	130.18	2,974.6

SOURCE: Indian Textile Bulletin, February 1971.

PROBLEMS OF THE COTTON TEXTILE INDUSTRY:

Thanks to the green revolution and the weather gods, an average Indian perhaps eats a little better food and more of it today than he did 15 years ago. But in the matter of clothing he is definitely worse off. The per capita consumption of cotton cloth, which is all that the vast majority of the population can afford, declined from 14.71 metres in 1955- and a peak of 15.10 metres in 1963- to 13.5 metres in 1969. The fall in the production of mill-made cloth from 4,800 million metres in 1956 to 4,100 million metres in 1969[1] is, however, the outward symptom of a deeper malaise that afflicts the industry. Much of the mills' machinery and equipment is old and worn out and has been badly

1. Indian Textile Bulletin, Sept. 1970. p.132.

in need of replacement for a decade or more. Thus a planned massive programme of renewals is an urgent necessity. For it, huge financial resources are required which, at present, are not in sight. Rising prices of raw cotton and soaring wage bills, which between them account for 75 per cent of the production costs, have played havoc with the mills' profitability. It is estimated that only a third of the 656 units at present make an annual profit, net of taxes, of more than five per cent, another third go deeply in the red year after year, and the rest just about manage to break even.[1]

Such a crisis is the result of serious problems caused by many factors which have been in existence in our economy for some years. But, during the last five years, the effect of these factors has been intensified because of the general economic situation in the country. Each one of these problems is important in itself, but the cumulative effect of all of them has been most unfortunate. This situation has resulted in unemployment of textile workers. It has also affected job security and employment potential from a long term point of view. Hence, the situation requires a brief problem-wise discussion.

RECESSION:

Since 1965, there has been a slump in the cotton textile industry. During the last five years, the spindle activity has come down very considerably (from 82.8% to 73.1%)[2]. Consequently, production has not increased in spite of an increase in the spindleage to the

---

1. Gupta, R.R. Crisis of the Indian Cotton Textile Mill Industry. A Survey- op. cit. p. 21
2. Indian Textile Bulletin issued by the Textile Commissioner, Govt.of India, Ministry of Commerce- April,1967.

extent of 10 per cent. The profitability of the mills has been drastically reduced with many of the mills making losses and a few of them forced to close down. The efforts of the various State Governments and the Centre to reopen and run these mills have not been very successful.

One of the major causes of the recession seems to be the lowering of the purchasing power of the average man consequent on the steep increase in food prices. Textiles is a postponable item of purchase and, in a slump, the textile industry is the first to be affected, in a marginal economy such as ours.

On the other hand, while the purchasing power of the people has gone down, the cost of production of textiles has increased. Every item that goes into the cost of manufacture has gone up. Cotton, stores, electricity have all risen steeply. Wages, both basic and dearness allowance, have been going up constantly under government orders and by virtue of awards of industrial tribunals and labour courts coming out from time to time. All these factors have resulted in a big increase in the overall cost of production and consequently the price of cotton textiles to consumer.

The third factor that has been responsible for the recession in the cotton textile industry is the pattern of consumption. The present pattern of production is not in tune with the pattern of consumption that has developed in the country. Over the past few years, there has been an increasing demand for cosmopolitan as distinct from traditional garments, for better finished cloth or cloth from

blended or man-made fibres. This can be easily seen from the fact that mills having good finishing equipment have not been affected by the recession to any considerable extent while mills which produce grey cloth or supply yarn to handlooms and powerlooms are the worst hit. The production of a substantial portion of the industry viz., the handloom sector is not catering to the present demand because the handloom industry has no finishing plant, and does not use man-made fibres to any extent. If this trend continues, the spinning mills which supply yarn to the hand looms would be affected even more in the future than they are today.

Therefore, the increase in the cost of production, the lowering of purchasing power and the present pattern of production have all been responsible for the recession. Factors such as the credit squeeze have also contributed to this difficult situation.

MISMANAGEMENT:

While there are many mills in the country which are very efficiently managed, there are some units in which the standards of management leave much to be desired. Investigations done by various agencies such as the Textile Commissioner's Organisation have revealed inefficient management in some sections of the industry. While this inefficiency has been due in some cases to a lack of understanding of the problems of management in a competitive and developing economy, in few other cases it has been due to deliberate mismanagement. If the industry is to be placed on a sound and self-reliant basis, the standards of management in inefficient units must be improved considerably.

LOW PRODUCTIVITY:

When compared with other textile producing countries, the productivity of Indian cotton textile industry is very low. The number of workers employed for 1,000 spindles upto spindle point varies from about 4 to 10 in India, while in Japan, it varies from about 1.5 to 4.5. Further, the rate of increase in productivity in other countries is much faster than in India, e.g. in Japan, the increase is at an average rate of 6.5 per cent per annum whereas in India it is not more than 5 per cent per annum.[1]

There are numerous causes for low productivity. The machinery and equipment used in India are still of the conventional type and their speeds and productions are 30 per cent to 40 per cent lower than in other textile producing countries. The standards of maintenance and working conditions in some of the mills are such that a large increase in productivity would be difficult without an improvement in these areas. In some of the older mills, the buildings as well as the layout of machines are such that easy movement of material is not possible and the mechanical transport can not be used for the purpose. Last but not the least is the opposition to the schemes of rationalisation and modernisation from certain sections of labour.[2]

But if there is to be a rapid increase in productivity, a significant improvement in all these areas is essential.

---

1. Lallubhai, V. "Towards Increased Cloth Production', 1969, Padmaja Publication, Baroda, 1969, p. 125
2. Ibid, p. 138.

MACHINERY, STORES AND ACCESSORIES:

Bulk of the machinery is old, outdated and works at slow speed. It requires replacement by new modern machinery of the automatic type to achieve higher productivity.

In order to encourage the indigenous production of textile machinery, stores and other accessories and in order to save foreign exchange, import of these items has been progressively banned in India. This is a good thing from the point of view of developing the national economy. However, it has been the experience of mills that indigenously manufactured items do not always come upto imported items in terms of quality. From the point of view of productivity, quality and the price of textiles, it is essential that the supply of machinery, stores and accessories should be of high quality. Methods of quality control and standardisation should be introduced and implemented in these auxiliary industries in order to ensure such quality. Research should also be undertaken in these areas in order to devise the latest designs and specifications in comparison with what is produced in other countries.

OPERATION OF CONTROLS:

In order to prevent excessive increase in the price of textiles, price controls have been in existence on certain varieties of cloth generally consumed by the common man. While this is necessary in the larger interest of the country, it has nevertheless been instrumental in some of the difficulties faced by the mills. While cloth prices

have been controlled, it has been impossible for mills to obtain cotton at the ceiling rates fixed by the government because of shortages. This has resulted in losses to those mills who are producing a higher percentage of controlled varieties while those who have been producing a very small percentage of controlled varieties have not been similarly affected.

Similarly, frequent changes in the quantum of excise duties as well as the ranges of cloth over which they are applicable have had the effect of changes in the production pattern which has not been desirable either from the point of view of the consumer or from the point of view of the worker.

COTTON SHORTAGE:

When India became independent in 1947, approximately 30 per cent of the cotton growing area went to Pakistan while almost all the textile mills were in India. Since then, there has been a chronic cotton shortage. While cotton production has increased both in acreage as well as in yield per acre, the increase has not been commensurate with the country's requirements.

This cotton shortage has been made up through imports. A reference to Table- XV gives an idea of the consumption of Indian and foreign cotton as well as the staple fibre during the past twenty years. From this table, it will be noticed that imports of foreign cotton during this period have varied between 5,00,000 and one million bales

TABLE - XV

CONSUMPTION OF COTTON AND PRODUCTION OF STAPLE FIBRES

PERIOD	Raw Cotton Consumption ('000 Bales)			Staple Fibres ('000 kgs.)	
	Indian	Foreign	Total	Viscose	Polyester
1950	2,740	1,106	3,846	-	-
1955	4,304	580	4,884	5,705	-
1960	4,112	985	5,097	21,779	-
1965	5,363	749	6,112	37,151	1,385
1970	5,301	564	5,865	42,769	2,547

SOURCE: Indian Textile Bulletin, April,1971.

depending mainly upon local crop prospects. During 1966-68, a combination of poor monsoons and an acute foreign exchange crisis resulted in a curtailment of imports and consequently a shortage of cotton. This has had the effect of pushing cotton prices beyond the ceilings (removed from 1.9.1967) fixed by the government for various varieties and consequently increasing the prices of textiles. The situation with regard to cotton has been so serious that in December, 1966 the Government of India, by an ordinance, ordered the mills to close down compulsorily for one day every week in order to conserve cotton stocks. The Ordinance has been lifted as from September 1967, because of better crop prospects during the coming season.

Therefore, if the cotton textile industry is to be placed on a firm and stable footing, it should be supplied with adequate quantities

of cotton of various qualities, at prices which are on a par with world prices. Since cotton cost comes to about 45 per cent of the total cost of a fabric, any increase in cotton prices would naturally affect the price of cloth. Such cotton supplies are essential to ensure reasonable prices for the internal consumer, for maintenance of our exports and for improving the employment potential and job security for the workers.

CLOSED UNITS:

The unsound financial position in the cotton textile industry has led to an increase in the number of closed mills.

Many units suffer from age, uneconomic location or low level of technology. Inadequate capital for modernisation and the persistent shortage of working capital have further worsened the situation. Thus at the end of June, 1971, mills closed numbered 88, including those scrapped and a few whose licences have been revoked, (vide Table-XVI). This has affected roughly around one-ninth of the total spindleage and loomage in the organised sector. Loss to the country as a result of successive closures of mills is enormous which is evident from the fact that about 96,000 workers have become unemployed and the loss in terms of production per day works out to about 10 lakhs metres of cloth.[1]

Of the 88 closed mills, 7 have been scrapped, 16 are recommended for scrapping and the remaining 65 are closed. The maximum

---

1. Report of the Textile Reorganisation Committee, Govt. of Gujrat, op. cit. p.1.

TABLE - XVI

TREND OF CLOSED MILLS

YEAR	No.of Mills Closed	Spindles affected (in million)	Looms affected (in'000)	Workers involvement (in '000)
30.9.1968	79	1.82	21	83
31.5.1969	82	1.91	22	92
30.9.1969	80	1.81	20	83
31.12.1969	66	1.46	18	70
31.3.1970	64	1.34	17	60
30.6.1970	68	1.49	19	68
31.12.1970	69	1.50	17	75
30.6.1971	88	2.03	24	96

SOURCE: The Economic Times, September 16,1971.

number of mills closed is in Tamil Nadu (19), followed by West Bengal(16) Gujrat (11), Uttar Pradesh (11) and Andhra Pradesh (5).[1]

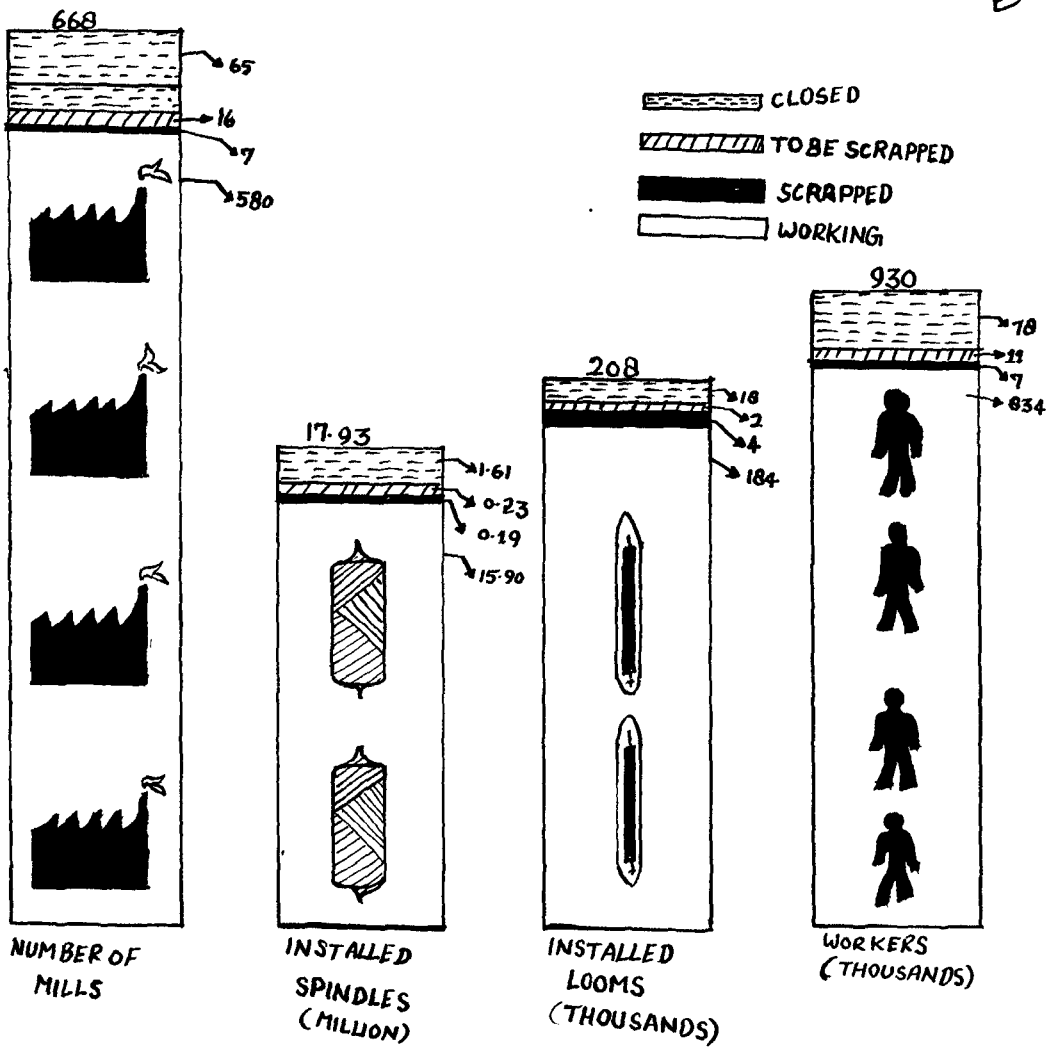
The above teble further reveals that situation has been deteriorating at much faster rate in 1971 than ever before. This is really an alarming situation and to stop further closures, immediate remedial measures are necessary, as such closures affect adversely the general economy of the country.

CONCLUSION:

The historical review has brought forth some important issues relating to cotton textile industry.

1. The Economic Times, September 16,1971.

Cotton Textile Mills Today



The industry which is playing an important role in the economic development of India by providing employment opportunities to about one million people and earning foreign exchange is now faced with grave economic crisis on all fronts. At the inputs level, it suffers from the scant supply of raw cotton due to inadequate domestic production and restriction on the imports of the cotton of fine variety.

The production of cloth has consequently declined. Even with limited output the industry is experiencing stiff competition with its substitutes specially synthetic fabrics. The cotton textile industry in almost all other countries has faced similar competition. But in advanced economies they have adopted new techniques with a view to meet changes on the demand side. The production technique has been altogether revolutionised by means of modern machines. In contrast Indian Cotton Textile mills are still harping on the old technique with the result that they are producing finished goods which could hardly compete with the substitute.

There is yet another aspect of working on old lines. It has its effect on labour productivity. The worker in Japan, on an average, minds about 2,000 spindles and 40 looms whereas his Indian counter-part looks after only about 450 spindles and 2 ordinary looms. As such, in Japan the worker output is nearly four times that of the Indian cotton mill operatives. In other words, in terms of labour the wage costs in India are higher than in Europe or Japan by about 60 per cent for spinning and by 33 per cent for weaving.

Not only the labour productivity has been influenced, but the profitability of the industry has also reached a low level. Textile

industry's gross profits as percentage of sales or profits after tax as percentage of net worth are declining. Consequently, 10 per cent of the mills are now lying closed affecting 25 lakh spindles, 30,000 looms and 83,000 workers.

The traditional methods of production are thus effecting both the labour productivity and the profitability of the industry. Modernisation is, thus, the need of time, the technical aspect of which has been analysed in the next chapter.

———oOOo———

CHAPTER - II

REHABILITATION AND MODERNISATION OF COTTON TEXTILE INDUSTRY

The preceding analysis reveals that during the past twenty years, greater emphasis has been laid on expansion rather than on modernisation of the cotton textile industry. The number of spindles has increased from 10.07 million in 1948 to 17.54 million in 1970.[1] But to put the industry on sound lines it is essential that the existing units be re-organised technically to withstand the competition. Let me, therefore, attempt to examine the scope of modernisation in relation to the requirements of the industry. It would be relevant to deal, however, briefly the implications of modernisation within the framework of rationalisation.

Rationalisation is a broad term; it encompasses modernisation as one aspect of the whole concept. It takes various forms, and the suitability of each type depends on the pace of the economic development of a country. Keeping this in view, the scope of rationalisation in

---

1. Indian Textile Bulletin, September 1970, p.1.

the cotton textile industry is discussed with reference to technical requirements of modernisation which has been recommended as a suitable form of rationalisation under the present economic conditions.

Germany may be regarded as a pioneer country in the field of rationalisation. After her defeat in the First World War, her industrial degeneration was so threatening that she had no other alternative but to take the most effective measures for her industrial regeneration. The concept, therefore, has got its origin in Germany and the word rationalisation derived its name from the German word 'RATIONALISIERUNG'. In its original use the term was employed to describe a narrower and more specific aim dictated by the circumstances of the post-war industrial situations. This was the aim of 'rationing' the output of certain industrial establishments "to keep it within the limits of current market demands" and of effecting simultaneously a reduction in costs. But now the term has come to be used for a far more comprehensive policy that is being taken up by the industrialists the world over.

The rationalisation is, therefore, an attitude of mind as well as a process of industrialisation. As an attitude it records the belief that a more rational control of world economic life through the application of scientific methods is possible and desirable for the continued survival of an industry. As a process it implies the application of the methods of science to all problems arising in the organisation and conduct of production, distribution and consumption.[1]

---

1. Urwick, L. The Meaning of Rationalisation, op.cit. p.7

The National Board of Economy and Efficiency, an institution set up in Germany in 1921 to promote rationalisation in the field of economic activity, defined the term in the following words: "Rationalisation is the employment of all means of technique and ordered plans which serve to elevate the whole industry, and to increase production, lower its cost and improve its quality. Its aim is to raise the general level of prosperity by cheaper, more plentiful and better quality goods." Thus rationalisation aims at elimination of waste in cost of production, elimination of competition, cooperation among producers, and in general avoidance of the evils of extreme individualism without creating the evils of monopoly. It is a technique which seeks to remove the evils of defective business organisation, inadequate and unsatisfactory technical equipment, both personnel and machinery, obsolete marketing methods, over capitalisation and excessive overhead charges, results of lethargy and thoughtlessness, mistake and miscalculation. In other words rationalisation aims at maximum profit through producing with minimum of cost and maximum of output, efficiency of men working on different processes in turning out the largest quantity of standardised products and the efficiency of management in preventing waste and unnecessary expenditure.

In the wider concept of rationalisation which aims to put reason in methods of technique and organisation to secure minimum waste of either effort or raw material the study is made. Broadly, it includes the scientific organisation of labour, the standardisation of both material and products, the simplification of process and improvement in the system of transport and marketing. The root

conception underlying this movement being suppression of redundancy in all its forms, whether of plant, material, labour, or mechanical processes.

Rationalisation involves amalgamation, integration and modernisation with the object of elimination of waste. Production is concentrated in several modernised plants, wasteful duplication of efforts is avoided and uneconomic antiquated units are closed down. Moreover, output is regulated in such a way that demand and supply are properly adjusted and prices are kept stable. It seeks to bring the isolated, unco-ordinated self controlled and self-contained units in the industry to the path of co-operation in the interest of the industry as a whole. It cultivates a new spirit and a fresh vision, so that a new sense of responsibility and public service emerges. The collective action is used in the interest of economy, efficiency and stability.

Rationalisation measures depend for their success on more than the routine application of abstract schemes and mechanical principles. Its successful implementation depends upon the degree of mutual understanding and cooperation among employers and workers, availability of huge financial resources, development of advanced stage in machine technology, specialisation and standardisation in methods of production and availability of technical personnel.

The need for rehabilitation and modernisation has been stressed by a number of committees, at national and international level, during the past two decades.[1] All concerned parties agree that modernisation

1. Textile Re-organisation Committe, Gujrat,1968-69,Maharashtra Cotton Textile Committee, First and Sixth Session of I.L.O. held at Brussels and Geneva in 1946 & 1958 respectively expressed that modernisation of textile industry is a must for its survival and proper development.

of the industry is essential if the production of textile goods is to be increased and if the workers in the industry are to enjoy those improved working conditions and better security which are essential for the healthy development of the industry. The outmoded methods of work adversely effect the productivity and the general standard of living. Modernisation be, therefore, given top priority for minimising all economic and social evils. Modernisation requires installation of new machinery and equipment or the modification of old machines, as the new machinery is essential for improving the condition of work and productivity. Likewise, employment of adequately trained personnel and the application of modern techniques of production are also essential to carry out the programme of modernisation.

For a clear conception of modernisation, it is necessary to distinguish it with replacement, repairs and maintenance. Maintenance consists of the normal attention given to the plant and machinery as painting, cleaning, lubricating- to arrest deterioration, whereas repairs consists of the mending (or sometimes replacing) of broken or worn out parts of plants and machinery. For maintenance, the time interval is short and medium, while repairs are sporadic. However, both items involve expenses which are small in comparison to the total value of assets.

The distinction between replacement and modernisation is less clear cut. Modernisation is the installation of a new type of equipment, superior in efficiency to the old one, whereas replacement as such could be conceived, in theory at any rate, as not involving any change in character of the equipment. In practice, however, in these days

of technological improvements, replacement operations do generally involve an element of modernisation. The motive behind modernisation is usually to introduce a new and improved method of production, whereas replacement does not have any such motive behind it. Further, the process of modernisation promotes productivity, reduces costs and improves the quality of the product, while replacement by and large maintains the existing method of production in which productivity, costs, and quality may be invariated. In other words, introduction of advance machine technology and other efficiency measures are the pre-requisites for modernisation.

It is generally an admitted view that the gain of higher productivity is the outcome of advances in machine technology and its increased introduction in the industry.[1] Moreover, increased pace of mechanisation has brought about rapid industrial development in various countries in the world, as it has made possible to achieve better results with the same or even lesser amount of efforts or comparatively improved results with the same amount of energy and efforts. Mechanisation has increased the volume of industrial output, eliminated unemployment through large scale expansion of investment resources and brought about improvement in the standard of living. The four-fold increase in productivity of industrial workers in the United States over the last half-century has been matched up by a four-fold increase in the horse-power which they use.[2] In short, it can be remarked that the most dominant factors that have contributed to the spectacular advance

---

1. I.L.O. Reports, Geneva,1947, 1948 and Fifth Session 1955. Modernisation and its related subjects are being fully discussed in these reports.

2. Melman: Dynamic Factors in industrial productivity, (Oxford 1956),p.1

in industrial productivity are the application of power, of varied improvements in equipment, ranging from the steady accumulation of small changes to the introduction of highly specialised and semi-automatic and automatic machines.

But mechanisation can not be regarded as the only factor for spectacular improvement in productivity;[1] present achievements in productivity is the outcome of slow but steady improvements in the whole process of technology, such as improvements in tools and equipment, better utilisation of materials and resources, improvements in methods of handling, better layout of plants, better techniques of production and organisation, sound management, decision making, control and supervision, scientific integration of various processes and increased technical know-how.

However, the degree of relationship between machine technology and productivity is not free from controversy. On this issue, some eminent economists and Research Organisations like National Bureau of Economic Research, U.S.A., Bureau of Labour Statistics USA, Works Progress Administration USA, etc. differ with each other. Some hold the view that technical advance is neither a sufficient cause nor a necessary condition for advance in productivity and, therefore, leadership in science and technology gives no guarantee for the leadership in productivity. In support of this view, instance of Europe is advanced, whose supremacy in science did not keep its technology and productivity ahead of North America. Such views are supported by Lewis Mumford[2]

---

1. Ewan Clague: Cost Reduction (New York 1949) pp. 1-5
2. Lewis Mumford: Technics and Civilisation. pp.425-27.

as well as by the productivity team of the Anglo-American Council.

On the other hand, Simon Kuznet,[1] Schumpeter, Boodin and other Research Organisations hold different view, according to which industrial retardation in part occurs because technical progress slows down- that is, with each advancement in machine design and process method, there is less left to improve. Moreover, the very fact that machine techniques have come to prevail in the bulk of the economy, far from causing any retardation of technological development, has, on the contrary, afforded a vastly broadened base for further technical improvements.

The controversy about the impact of machine technology on productivity still remains unsolved due to statistical and indexing limitations in measuring the degree of relationship between them. However, some approximate relationship can be established, if technology were to be measured by the amount of machinery used or horse power consumed and productivity by the output per man-hour.[2] Just for example, in United States between 1899 and 1939 the machine horse power available to each factory worker increased about three-fold and output per man-hour in factories increased in almost the same proportion.[3] Similarly, a comparative study of productivity in American and British industries indicate that the ratio of horse power per worker in United States and United Kingdom bears the same

---

1. Kuznet: Secular Movements in Production and Prices. pp. 9-12
2. Studies conducted by the Bureau of Labour Statistics USA(B.L.S); the National Bureau of Economic Research USA (N.B.E.R.); Works Progress Administration, USA (WPA); and Dr.Rostas.
3. Rostas, L. Comparative Productivity in British and American Industry.(Cambridge University Press), pp. 60-65.

relation as the ratio of output per worker in the United States and United Kingdom. But in Holland and Germany, the output per head is equal to Britain, although, they have more horse power than the Britain. Further, the countries of South-East Asia have comparatively more horse power per worker, though their output per head is less than the output of Britain.[1]

These comparisons do not suggest any fixed relationship between machine technology and productivity. In some cases the relationship has been close and fixed whereas in other cases, either, it is not well marked or did not seem to exist at all. This variation is due to the fact that the economic use of machinery depends on a number of factors such as the employment conditions, availability of raw material and the degree of machine technology already developed in a country. Now we are in a position to say that if other things remain the same, the adoption of machine technology and degree of its impact on productivity depends on a number of factors which have already been mentioned above.

In the present economic world of rapid industrialisation and increasing production, industrial efficiency or productivity has come to acquire a new meaning and carries a message of hope for all the under-developed countries. Economists, industrialists, employers, employees and States, all attach a new significance to industrial efficiency and hail it as a factor that would purvey a higher standard of living for any country. It has now come to be recognised by all

---

1. Rostas, L: Comparative Productivity in British and American Industry. op.cit. pp. 50-55.

that income income and, consequently, the standard of living of a country is low because its efficiency is low and vice-versa.

Referring to the higher standard of living in America due to a relatively higher productivity, Sir E. Caigne in his Planning Guides for Industry writes: "In effect it has given us not only bread and butter, but jam as well." Similarly, Lenin remarked, "Productivity of labour is, in the end, the most important matter, the essential matter for the victory of our social system." Mr. V.K.R. Menon, writing in the Indian Labour Gazette has emphasised: "Productivity is important because this is the only way to industrial progress and rising standard of living."

Low industrial efficiency, in effect, is bound to be connected with a low real income and in consequence a low standard of living. The low productivity of working population of Asia is indirectly responsible for the low income of the people here which, at present, is the smallest in the world.[1]

Productivity consciousness is also gathering ground in India. The Regional productivity Council which was formed in 1958, defined productivity as the "ratio of the goods and services produced", i.e. output of wealth to the input of resources required for the production. The resources include men, power, capital, machines and materials, etc." This definition, by including power, capital, machine, etc. in the list of resources required for production, makes a significant departure from the conventional concept of industrial efficiency wherein the ratio

---

1. Asian Regional Conference of the I.L.O. met at Tokyo in September 1953 drew pointed attention to this fact.

of output had been firmly linked with the corresponding labour input alone, and thus gives a very wide sense to the term. In the words of the preamble to the Regional Productivity Council, Bombay, "Increase of productivity implies the finding out of a better way to utilise the various tools and resources of production, in order to produce more and better goods, at lower cost. Its objective is the full, proper and efficient utilisation of the man, machines, materials and money for maximising production in order to yield as many goods and services as possible, of the kinds most wanted by the customers, at the lowest possible cost, in a way that does not lead to social or economic distress anywhere and that the programme of productivity fits in with the overall plans of development of the country."

Discussion in the preceding paragraphs makes it abundantly clear that development of cotton textile industry pre-supposes improvement in productivity- an outcome of modernisation. Now in order to know the exact position of Indian textile industry in the field of productivity and desirability for further improvement through modernisation, it is proper to have a comparative study of productivity achievements by this industry the world over.

New technical innovations and modernisations are taking place at a fast pace all over the world in the cotton textile industry. The object is to replace old machinery by modern one since this has the advantage of eliminating out-moded methods of production and of removing the need for some of the traditional skills which have now become redundant due to progress in technology. In most of the textile manufacturing countries of the world great strides have been taken towards a

fuller utilisation of such new and advanced techniques in yarn and cloth production. The keynote of this progress is specialisation, standardisation, working with large packages, shortening the process in the spinning mill, the installation of automatic looms, air-conditioning in the factory and generally speeding up the pace of work. In other words, increasing attempts are being made to attain efficiency and economy in production by installing automatic machinery and by shortening the processing methods. Speaking particularly about the weaving process, I.L.O. have ventured the view that the past twenty years and the next will have "seen greater changes in the staffing, equipment and outlook of the weaving industry since the first Industrial Revolution."[1] According to the Textile Committee of the International Labour Organisation, every effort has been made and continues to be made by the parties concerned to speed up introduction of technological change in all textile producing countries, notably Austria, Czechoslovakia, Finland, France, West Germany, Israel, the U.S.S.R. and the United Kingdom. As regards Austria, the I.L.O. Textile Committee observes, "the main objective has been to better equip the industry to meet international competition and, in the long run, to create greater employment opportunities. Provision is made in the collective agreement in force for the allocation of more machines per operative."

The Committee reports that in U.S.S.R. much has been done in the field of mechanisation, automation and general improvement of production processes, as well as in regard to all round modernisation of factory premises.[2] In regard to the Federal Republic of Germany,

---

1. I.L.O. Textile Committee- Seventeenth Session, Geneva 1963- General Report-I
2. Ibid. p. 20.

one-third of the machinery was over 40 years old. About 50 per cent of the Ring Frames were over 40 years old; 50 per cent were over 20 years old; about 80 - 85 per cent of the looms were more than 20 years old of which about half were more than 40 years old. According to the Indian Cotton Mills Federation, of the 15 million spindles in 1965 nearly 9.5 million spindles are of pre-war origin. Moreover, at some places, machinery as old as 1898 is still being used in the country. In other words it can be said that in most of the mills, the machinery in use is very old, worn out and out-moded. At many places, due to bad condition, the equipment has become a liability on the industry, as it vitiates the quality of mill products, increases the cost of production and imposes unnecessary strain on the worker.

The poor condition of equipment in Indian textile industry is due to the fact that till very recently no serious attempt has been made to modernise the industry. Truly speaking, there is no coherent history of modernisation in India. Excepting Bombay and Ahmedabad, the history of modernisation is nothing more than chronological record of various attempt that have been made to introduce modernisation in cotton textile industry. The history is more or less a dismal picture of perpetual tug of war and a continued struggle between the management and labour wherein follies and serious acts of commission and omission are found prominently painted. The Labour Unions, which have mostly been guided by exterior and political motives, have been primarily responsible of the absence of even a rudimentary progress in this direction. Significant progress of modernisation is visible in the mills which have been established after 1947 and thus had the opportunity

of rationalising their working from the very start and in the individual units that could carry the labour of their mills with them through pursuasion, negotiation, or coercion.

Modernisation in the form of 'efficiency measure' was not attempted in the country till 1926. In the year 1927, the Tariff Board referred to the necessity of increased efficiency and large output per operative, especially for mills in Bombay city. It mentioned that the average number of spindles looked after by a piecer in India was 180 as compared to 540 to 600 in England and 1,120 in the United States. The number of looms attended to by a weaver in United Kingdom averaged 4 to 6, and in the United States 9, while in India it was usually 2.

The same position with slight changes still continues and has, therefore, resulted in the accumulation of old and rotten equipment with all its evil effects on the productivity of the textile industry and hence on all the parties concerned- employer, employee and consumer.

The earnings of textile workers in this country might be low but the net production per unit of worker was not high. This view is fully supported by Table- XVII which gives international comparison of yarn production per worker.

The Table prominently brings out the fact that India stands on the lowest rung of the ladder in the matter of yarn production per worker in the world. Compared with India's production of 2,746 kg. per worker per annum, it comes to 4,486 in U.K., 6,937 in France, 6,951

TABLE-XVII

INTERNATIONAL COMPARISON OF YARN PRODUCTION PER WORKER (1968)

S.No.	COUNTRY	Worker Engaged in Spinning Department	Yarn Production (in'000kgs.)	Yarn Production per worker per annum(kgs.)
1.	Denmark	1,685	8,357	4,960
2.	Finland	2,080	15,860	7,625
3.	West Germany	49,075	301,365	6,141
4.	Switzerland	6,262	34,490	5,508
5.	U.S.A.	105,600	1,754,111	16,611
6.	France	39,265	272,365	6,937
7.	Japan	70,520	490,167	6,951
8.	Italy	56,100	193,074	3,442
9.	U.K.	49,420	221,700	4,486
10.	India	3,25,000	892,574	2,746

SOURCE: Compiled from European Cotton Industry Statistics; U.K. Cotton Board; Cotton World Statistics; and Textile Commissioner's Bulletin.

in Japan, 7,625 in Finland and 16,611 in U.S.A.

The high production of yarn per worker per year in other countries is mainly on account of a higher work assignment in those countries as compared to India. This is clearly illustrated in Table- XVIII.

The table clearly indicates that in comparison to the textile workers of other countries, Indian worker handles the least amount of work. Whereas in U.S.A. a worker handles from 1500 to 2,100 spindles

TABLE-XVIII

INTERNATIONAL COMPARISON OF WORK ASSIGNMENT PER WORKER

COUNTRY	ASSIGNEMTN OF SPINDLES
INDIA	450 to 500
UNITED STATES	1,500 to 2,100
JAPAN	1,600 to 2,400
BRITAIN	800

SOURCE: Cotton World Statistics and Textile Commissioners Bulletin.

and in Japan from 1,600 to 2,400 spindles, an Indian worker handles from 450 to 500 spindles.

One of the reasons for such state of affairs is the worn out and out-moded condition of Indian textile machinery, whereas in other countries the case is just reverse. Sixty-four per cent of the spinning equipment in the Japanese cotton mill industry is only 8 years old at present; in Germany 65 per cent of the cotton spinning capacity is not more than 10 years old; in France 80 per cent of the spindles in 1963 were less than 10 years old; while in U.S.A. 75 per cent of the spindles worked in 1954 have been replaced by new ones.[1]

In India much of the mill equipment is very old. The working party for the Cotton Textile Industry has furnished useful information

1. Memorandum submitted by the Indian Cotton Mills Federation, Bombay, to the Second Central Wage Board for the Cotton Textile Industry in October 1965, pp. 9-10.

regarding the state of the industry's productive machinery. The following figures compiled from its report indicate the extent to which the looms being operated by Indian mills have become antiquated.

TABLE-XIX

Region or Centre	No. of mills covered	No.of looms installed prior to 1910	No.of looms installed during 1910-1925	No.of looms installed after 1925
Bombay city	38	32,815	11,618	5,532
Ahmedabad	38	3,020	3,900	13,698
Delhi & U.P.	10	3,044	3,866	2,687
Coimbatore	11	678	-	200
Madhya Pradesh	6	3,570	1,125	573
Madhya Bharat	8	2,266	2,866	440
TOTAL:	111	45,393	23,375	23,130

The table clearly indicates that out of 111 mills covered about 50 per cent looms are more than 60 years old, about 25 per cent are in the age group of 45 to 60 years whereas only 25 per cent are less than 45 years old.

There are no ordinary looms in the United States and Japan where all the looms installed are now automatic. In other countries, the percentage of automatic looms varies between 40 to 90 per cent. Compared to this, India has got only 16 per cent automatic looms, mostly installed in recent years as a measure to boost export drive.

Regarding loom shed, the state of modernisation in the cotton textile industry of the world can be judged from the following Table-XX.

TABLE - XX

AUTOMATIC LOOMS OR LOOMS WITH AUTOMATIC DEVICES AS A PERCENTAGE OF TOTAL LOOMS INSTALLED

COUNTRY	1956	1963	1967	1968
UNITED STATES	100	100	100	100
Japan	N.A.	81	100	100
Canada	99	99	99.6	N.A.
Denmark	69	90	95.9	N.A.
Belgium	29	42	81.8	N.A.
France	53	62	76.6	78.8
West Germany	39	69	75	88.5
Pakistan	N.A.	N.A.	69.4	72.7
United Kingdom	13	34	42.2	45.3
India	6	16	16.4	17.3

SOURCE: (i) I.L.O. Textile Committee- Seventh Session, Geneva 1963 (for 1956 & 63 figures).
(ii) Hand-book of Statistics on Cotton Textile Industry purchased by the Indian Cotton Mills Federation, Bombay- February 1969 (for 1967 figures).
(iii) The Economic Times, September 1971 (for 1968 figures)

In the Table, India find the lowest place not only in the percentage of automatic looms but also in the percentage increase. Whereas percentage of automatic looms in 7 out of 10 countries is between 75 and 100, in two countries it is between 45.3 and 72.7; in India it

is only 17.3. Moreover, in the rate of progress towards automation, it seems that while others are running India is thinking in terms of taking a start. During 1956-68 in Germany, there is 125 per cent increase in the installation of automatic looms, in U.K. the increase is more than 225 per cent. During 1963-67 in Belgium the increase is about 100 per cent. But in case of India, the increase during 1963-68 is only 8 per cent.

Not only the work assignemtn is very low in India, but the efficiency of machine is also very low, indicating the backward nature of machinery and plant of the country. This is made evidently clear by the following table giving international comparison of yarn production per spindle installed per hour worked.

TABLE-XXI

YARN PRODUCTION PER SPINDLE HOUR WORKED

	1953	1960	1964
All countries	-	0.0156	0.0171
Group I Countries	0.0141	0.0157	0.0186
Group II Countries	0.0137	0.0135	0.0136
Japan	0.0136	0.0155	0.0171
India	0.0129	0.0113	0.0115

N.B: List of GroupICountry: Australia, Austria, Canada, Denmark, Belgium, France, W-Germany, Italy, Ngrway, Sweden, U.K. & U.S.A.
List of Group II Countries: Hong Kong, India, Pakistan, Israel, Mexico, Republic of China, and Korea, Spain, Turkey and U.A.R.

SOURCE: Compiled from the Cotton World Statistics.

Here too, India finds the lowest place. Whereas, in 1964 the yarn production per spindle hour worked in all countries is 0.0171, in Group-I countries, it is 0.0186, in Japan it is 0.0171. and even in industrially backward Group-II countries it is 0.0136, in case of India it is only 0.0115. As regards progress between 1953-64 in all cases except Group-II countries and India there is a marked improvement. In case of Group-II countries and India there is a downward trend. Here too, the downward trend in case of India is to a considerable extent (from 0.0129 to 0.0115) whereas it is insignificant in case of Group II countries (from 0.0137 to 0.0136).

As a result of higher work assignment coupled with modern plant and machinery, the labour cost per unit in other countries is much low as compared to India. This is evident from the following Table-XXII.

TABLE - XXII

AVERAGE MONTHLY WAGE COST

	Per 100 spindles	Per 100 Looms
	Rs	Rs
India	1,495	12,000
Europe	900	9,000

SOURCE: Second Central Wage Board Report for the Cotton Textile Industry, p.11

The table clearly indicates that for handling 1000 spindles, average monthly wage cost comes to Rs. 1,495 in case of India while in case of Europe it is only Rs. 900. Similar position is witnessed in case of handling of 100 looms, where average monthly expenditure

amounts to Rs. 12,000 in case of India while expenditure on this head comes only to Rs. 9,000 in Europe. It is mainly due to the fact that more work is supervised by the European labour than his Indian counterpart. In United States one worker handles 60 automatic looms, in Japan 30 to 48 automatic looms, in Britain 6 ordinary looms whereas in India only 2 looms are handled by one worker.[1]

While comparing industrial efficiency of the Indian cotton mill industry with its counterpart in other countries it would be interesting to compare the composition of labour force in different countries and the difference prevailing between wages of men and women.

TABLE - XXIII

COMPOSITION OF WORK FORCE AND EARNING DIFFERENTIALS IN TEXTILE INDUSTRY OF VARIOUS COUNTRIES(1954 &59)

COUNTRY	Female Wage earners as percentage of all wage earners		Earnings of male wage earners as percentage of those of female wage earners	
	1954	1959	1954	1959
Austria	68.0	70.6	-	-
Belgium	49.8	49.5	147	151
Canada	36.7	34.5	141	144
Finland	77.6	75.7	134	133
W.Germany	59.5	60.7	133	129
Italy	72.5	69.2	-	-
New Zealand	48.1	51.2	170	171
Norway	63.2	61.0	141	138
Switzerland	61.5	60.1	142	145
United Kingdom	57.5	54.3	152	153
Japan	-	78.0	175	188
India	8.4	6.5(1958)	128	121(1958)
Pakistan	5.7	9.6(1957)	-	-
U.A.R.	-	9.8	-	-
Yugoslavia	67.0	67.8	132(1955)	136

SOURCE: I.L.O. Textile Committee, Seventh Session Geneva,1963, Report I, Supplement p.19

1. Cotton World Statistics and Textile Commissioners Bulletin.

Table XXIII clearly shows a predominant position of female labour in all countries, excepting India, Pakistan and U.A.R. Japan leads with 78 per cent female labour closely followed by Finland (75.7 per cent), Austria (70.6 per cent) and Italy (69.2 per cent). The important thing that strikes is that even the most conservative country, like Pakistan, employed more female workers in 1957 (9.6%) than it did in 1954 (only 5.6%). In India, the picture was just the reverse and the figure of 8.4 per cent in 1954 further slumped to 6.5 per cent in 1958. Even U.A.R. employed a much higher percentage of female labour as compared to India.

The last two columns of the table clearly indicate that earnings of male workers are very high as compared to the earnings of female workers in all the countries. In India, the gap between the two earnings is the narrowest. Moreover, the gap in India has further narrowed down during the years while it has actually widened in most of the countries, indicating a further fall in the wage cost in those countries while it increased in India.

The women employed represent 73 per cent of the textile labour force. This large-scale introduction of female labour in the industry was stimulated by a number of factors, including developments in mechanisation and automation which have made work easier, and the improvement of women's occupational skills.[1]

Japan, besides having the advantage of large female labour force, has got an additional advantage in having a high proportion of

---

1. I.L.O. Textile Committee, Seventh Session, op.cit. pp. 25 and 79.

unmarried women workers in the total labour force. In December, 1960, the number of female workers of the 15-19 age group in the ten major spinning mills in Japan amounted to 62.6 per cent of the total female workers, and 93.7 per cent of them were under 30 years of age.[1] It is obvious that such a large percentage of young and unmarried female labour force working hard at comparatively lower wages for a future married life will give tremendous advantage to the Textile Industry of Japan both in matter of efficiency and wage cost.

Increase in the textile productivity in Federal Republic of Germany, Japan and U.S.S.R. are ascribed to the re-equipment of the industry and the constant improvement of production techniques.[2] In the Federal Republic of Germany production and productivity have risen in roughly the same proportions with productivity slightly ahead of production figures.

In U.S.S.R. the productivity in the spinning industry has increased by 8.5 per cent and in the weaving industry by 7 per cent from 1958 - 60. In Austria, there is a fantastic increase in textile productivity at an average rate of 5 per cent per year. In United Kingdom, which was the last to take corrective measures to improve the health of its sickening textile industry, work-study has been accepted by the textile industry as being complimentary to technical change and it carries general support of employers, organisations and trade unions.[3]

---

1. I.L.O. Textile Committee, Seventh Session, op. cit. p. 165
2. Ibid, p. 41
3. Ibid, p. 160

A comparative study of the efficiency trends of the Indian cotton mill industry with other countries will be incomplete without having an idea of the average earnings in the textile industry over the average earnings in all manufacturing. Following table gives a comparative picture of the various countries in this respect.

TABLE - XXIV

AVERAGE EARNINGS IN TEXTILES AS A PERCENTAGE OF AVERAGE EARNINGS IN ALL MANUFACTURING

COUNTRY	1953	1956	1960
Austria	83.4	80.9	78.2
Canada	79.2	76.5	75.5
France	-	84.5	83.0
Italy	84.6	80.3	79.7
United Kingdom	87.0	83.0	82.5
United States	77.4	73.2	70.7
Japan	62.9	62.1	63.4
India	100.4	101.0	104.9
Pakistan	100.0	89.0	88.5
U.A.R.	102.2	99.5	98.1

SOURCE: I.L.O. Textile Committee, Seventh Session, op.cit. p.16.

The table shows that textile wages are highest in India in comparison to wages in other industries. The most disquieting feature in this respect is that during the period 1953-60 the percentage of

textile wages in India has further increased from 100.4 to 104.9. It is interesting to note that during the same period the percentage of textile earnings has sharply declined even in Pakistan from 100 to 88.5. In U.A.R. also the percentage has gone down below 100. Japan again has the distinction of having the lowest percentage at 63.4.

In the above paragraphs broad assessment of industrial efficiency in the Indian textile industry vis-a-vis the textile industry of other countries has been made. The assessment reveals that India stands on the lowest rung of the ladder in the matter of yarn production per worker per year as well as yarn production per spindle hour worked. The high production of yarn per worker in other countries is mainly on account of higher work assignment in those countries as compared to India. In foreign textile manufacturing countries plant and equipment is new and modern and is not more than 10 or 15 years old, whereas in most of the Indian mills the machinery in use is very old, worn out and out-moded and comes in the age group of 50 to 60 years. While in other countries the percentage of automatic looms varies between 40 to 100, in India it is only 16 per cent. A foreign worker is in a position to handle 1,500 to 2,000 spindles and 40 to 60 automatic looms, whereas performance of an India worker is limited to 500 spindles and 2 looms.[1]

It can now be pointed out without any fear of contradiction that the textile industry in India does not stand in comparison with other countries in the matter of industrial efficiency due to high

---

1. Report of the Productivity Team for Cotton and Textile Industry.

labour cost per unit of production in India. While industrial efficiency is on the increase in other countries, it is still, more or less, stagnant in India and in some cases has actually declined.[1]

If no check is applied on this downward trend of productivity, there is bound to be a further increase in manufacturing costs and a stiffening of consumer resistance- at home and abroad to buy cotton textile. Such a state of affairs is the result of continued use of old outdated methods of production. The inadequate use of power tools or the use of antiquated ones perpetuates low productivity; low productivity leads to high costs and low wages; low wages keep down purchasing power and demand, and low demand enforces low production. This vicious circle is the main cause of the poverty of industrially backward countries. We must seek the earliest opportunity to come out of this vicious circle. The only way to break through it and to achieve a higher standard of living for all is, through the use of modern equipment and methods, so that we may produce quality goods at reasonable price with greater capacity to pay higher wages than before. In short, proper implementation of modernisation will make it possible to assign more work to the workers and achieve an increase in output of quality goods. It will check the downward trend of productivity and will enhance productivity at all levels.

In a steadily shrinking and keenly competitive world market and weak position of home market for textiles, insistence on the status quo would prove calamitous from the point of view of exports and home consumption. Therefore, in the face of such ever growing

---

1. Report of the Working Party for the Textile Industry 1960, p.39

challenges the industry must improve so as to be in a position to earn valuable foreign exchange and to keep the prices of cloth at a reasonable level. This will increase market nationally as well as internationally and also increase per capita consumption of cloth to maximum possible extent.

Rising production costs, depleted finances, severe competition, higher prices and shortage of raw material, out-dated and worn out plant and machinery undue government restrictions and the present crisis of buyer's market are some of the main problems faced by the cotton textile industry of India at present.[1] Workloads in India are one of the lowest and in spite of the recommendations of the First Central Wage Board very little progress in this direction has been made which at once confronts us with the question of a speedy implementation of modernisation schemes based on work studies and after providing the necessary working conditions. In this connection, it is most pertinent to mention that a sizeable part of wages in the cotton textile industry is not related with productivity.[2]

Workloads are intimately connected with industrial efficiency. The number of machines looked after by an operative, the duties performed by him in connection with the job, the minimum production he is expected to give during his scheduled working hours, all have got a tremendous effect on industrial efficiency.

Workload assignments, on the other hand, are highly amenable to working conditions and can be increased without any corresponding

---

1. Indian Cotton Textile Bulletin, 1967, p. 25
2. Report of the Productivity Team for Cotton and Textile Industry, p.87.

increase in strain and fatigue on the workmen through proper work-study techniques and job evaluation under expert guidance. In other words, it means that labour productivity can easily be increased under scientific conditions, if due workloads are given to workers after proper assessment, and the same are revised upward from time to time commensurate with improvements in the methods of production and introduction of better machinery and working conditions.

By way of caution, it may be pointed out here that there is no sacrosanct and inviolable link between higher workloads and higher industrial efficiency. It is perfectly feasible that industrial efficiency might go up while, at the same time, workloads may go down. This is so because industrial efficiency also includes the productivity of machines. Substitution of an old and less efficient machine by a better and improved one will automatically increase industrial efficiency and will simultaneously reduce the workload. This atonce leads us to a different meaning of productivity, i.e. the industrial efficiency in general and the labour productivity in particular. In the former sense, an increase in productivity results automatically by an advance in production techniques and so on, while in the latter, it is related to the deliberate efforts made on the part of labour under a given set of conditions.[1]

A comparative study of productivity data in respect of various textile centres of the country unmistakably shows that there has been hardly any appreciable increase in the industrial efficiency

---

1. United Nations: "Methods to increase World Productivity". Working Paper by the Secretary General, 1952, pp.7 to 11.

of the industry as a whole since 1939. A comparative study of the data since 1960, i.e. after the enforcement of the First Central Wage Board's Recommendations, reveals that there has been the least rise in the industrial efficiency as compared to other cotton manufacturing countries of the world.[1] This country has also been unfortunate in respect of introduction of modernisation. In fact, the problem of modernisation is continuing since 30 years in India and has not been fully solved even today. This has placed the country in the last row in the matter of industrial efficiency.

In most of the Indian textile mills the machinery in use is not only very old but also out of date which has become the main reason for poor quality, low productivity and high cost and prices.

Thus modernisation far from being a luxury is one of the urgent need of the industry. But installation of ordinary looms and other out-of-date equipment, though they may be new, would mean the perpetuation of production methods which are being rapidly discarded in other countries. In that event the fundamental object of modernisation viz. reduction in manufacturing costs in order to stimulate a higher rate of consumption at home and to create a wider demand for the products of the industry abroad would not be fulfilled. On the other hand, modern machinery would enable the worker to increase the earnings on a scale which it would be impossible for him to reach if he is merely content with minding two looms only. Without modernisation, the natural talents of Indian workers and craftsmen are being

---

1. Memorandum presented to the Second Wage Board 1968 by the Textile Millowners' Association, Bombay, has drawn pointed attention towards this fact.

wasted in a hopeless race against modern technology. Unless and until these workers are helped to produce more goods and more wealth, neither wages nor living standards can be raised. We can not divide what we do not first produce. Hence, the choice before India is not between modern industry and old-fashioned industry, but between modern industry and no industry at all. There is no half-way between them. Either India should build a highly productive and happy society in which workers have, thanks to the modern machine technology, regained their dignity, or it shall sink back into a primitive form of society with growing poverty and despair.

The need of the hour is, therefore, to rehabilitate the Indian Textile industry through a speedy process of modernisation. This unfortunately did not take place, which is fully reflected in the figures of a very low rise in industrial efficiency in India as compared to other countries during the last ten years.[1] The industrial efficiency in the Indian textile industry continues to be at a low level as compared to other important textile centres of the world. It may be emphasised that prolonged inefficiency is like a process of "slow consumption" and if it is not effectively eradicated soon, the Indian textile industry will face dark future and wide spread closures with all attended evils which follow in its wake.

CONCLUSION:

Recent developments in cotton textile technology have resulted in the design of high speed machines which are more productive than

1. Report of the Productivity Team for Cotton Textile Industry, p.83

conventional machines. Spindle speeds in India today are about 10,000 r.p.m. while in almost all the advanced countries it is about 14,000 r.p.m. without an increase in the incidence of end breaks. What is true of spinning is also true to a large extent as far as weaving is concerned. Therefore, in the near future there should be greater concentration on modernisation of the cotton textile industry than on expansion. Modernisation would result in a strong, self-reliant industry whose investment on capital would fetch a better return than on new investment. While modernisation would solve many problems, its implementation will depend upon the availability of adequate funds. Modernisation above all things needs investment of huge capital funds. The next chapter will, therefore, estimate the financial requirements of modernisation.

———oOoo———

CHAPTER - III

FINANCIAL REQUIREMENTS FOR MODERNISATION

In the last chapter it is concluded that the biggest problem of modernisation of Cotton Textile Industry of India is its capital requirement. In the national economic planning, the priority for modernisation is generally fixed after taking into consideration its financial implications and comparing the same with the competing demand for capital from other sectors of the economy. This chapter has, therefore, computed the financial requirements for modernisation. It is proposed to examine the scope of modernisation in the first instance with a view to assess its financial needs in proper perspective.

SCOPE OF MODERNISATION:

Modernisation of an industry is generally regarded as a replacement not only of old, worn out, uneconomic or obsolete machinery but also the introduction of modern techniques and methods, so as to enable the industry to be equipped with modern equipment

for improving the quality of production, improving productivity, reducing unit costs of production and relieving the strain on the operatives. But the replacement of old machines by new ones involves a number of other considerations and these must be taken into account in any scheme of modernisation.

One of the major effects of modernisation is an increase in the capital cost of equipment and the advantages of modernisation depend on the extent to which this equipment is utilised and maintained. Full machine utilisation involves the adoption by management the managerial skills which are the essential pre-requisites of a modern industry. These include maintenance of good working conditions, supply of appropriate raw materials and spare parts, a proper organisation of their man-power resources including maintenance of good industrial relations, production planning, training, etc. The introduction of new management techniques such as quality control, cost control, work study, etc., are also essential. The implementation of these practices are important even in older units, but in the context of the high cost of modernisation, their adoption in modernised units is imperative.

For the modernisation of cotton textile industry of India in a systematic and planned manner it is necessary to find out its exact requirements and their financial implications together with the resources for necessary finances. With this end in view the problem of cotton textile industry, specially the problem of its rehabilitation and modernisation, have been the subject of many investigations during

the last twenty years. The Working Party 1950 and the Textile Enquiry Committee 1954; the Textile Enquiry Committee (Joshi-Committee) 1958; Working Group for Cotton Textile Industry 1960; the Working Group on Textile Machinery 1968; the Working Group on Textile 1969 and several other bodies have gone into this question. For this purpose some surveys during different periods were conducted by these bodies, to determine the extent of rehabilitation and modernisation requirements.[1] Let me detail some of them in the following paragraphs.

These surveys and investigations reveal that before the World War II the Indian Textile Industry was trying to replace imports and that too successfully. It expanded its base by adopting more processing techniques. The Second World War was perhaps a happy interlude of extra-ordinary productivity. At that time, the Government issued a note of warning to industrialists generally that they would find themselves in difficulty at the end of the war and that profits made during that period should not be frittered away by large dividend distribution. But inspite of these warnings, in many units profits have not been conserved for the future benefit of the industry and that large dividends were declared during those

---

1. Questionnaires were addressed to all the Cotton Textile mills in the country, but due to one reason or the other, replies could never be received from all the mills. Hence, although the overall response can not be considered as very good, the data furnished in the replies received are helpful in providing a broad idea of the pattern of developments taking place and of the future requirements of the industry.

years of abnormal profits.[1]

The return of competitive civilian market showed up some of the weaknesses of the industry. With the controlled prices of cotton, there was a fillip in the exports in the early fifties. But when that support was lost, again the exports began to decline. The period of boom and the seller's market created a feeling of safety and despondency. The result was that the technological changes coming in the world were adopted sparingly by the industry and that too only by a few foresighted managements. Moreover, the industry was not able to adopt modernisation at the pace required because of the intervention of the Second World War and prices of machinery going up by about 5 to 6 times. Also more profit attracting investment opportunities opened up as a result of national development programmes undertaken extensively in the successive five year plans. The result has been that the industry on the whole is suffering from back-log of modernisation, and hence many of the units of the Indian textile industry require to be modernised and rehabilitated to a substantial degree. The fast changing technology of textile has to be adopted to make these units not only viable, but competitive.

FINANCIAL ESTIMATES OF MODERNISATION:

The Working Group for Cotton Textiles in its report had estimated the normal rehabilitation and modernisation needs of this Indian industry around Rs. 800 crores (1958-59 prices). Since

---

1. Observations of the Working Party, under the Chairmanship of Mr. A. Ramaswamy Mudaliar.

then the prices have gone up by about 50 per cent, therefore, modernisation cost will also increase proportionately and will come to about Rs. 1200 crores. Further, if we consider the price increase of imported machinery due to devaluation of Indian currency and also the ever increasing inflationary trend in machinery prices, the required expenditure, by the time of proper implementation of modernisation programme, will not be less than Rs. 1,500 crores.

The Working Party's assessment gives an idea about the extent of finances necessary for the complete modernisation of the Indian Textile Industry. Next thing which is all the more important is to decide the duration or time limit within which modernisation work is to be completed. Here it must be realised that the pace of modernisation should not be prolonged because by the passage of time the cost of modernisation will increase and will put great strain on the economy of the country. For successful implementation it can be pointed out that the best can be achieved only when the modernisation scheme is integrated to the overall industrial development plans of the country. The Productivity Team of the Cotton Textile Industry in five Latin American countries, after a thorough enquiry into the scope and possibilities of modernisation as a suitable method of higher productivity, also recommended that the modernisation of existing industry be incorporated in the Plans of industrial development.[1]

---

1. UN Department of Economic Affairs: Labour Productivity of the Cotton Textile Industry in five Latin American countries. (New York, 1951) pp. 13 and 82.

The above mentioned planned programme of modernisation of machinery in a textile mill will require one or more of the following changes:

1. higher drafts;
2. larger packages;
3. higher speeds;
4. automatic controls
5. processing and finishing in conformity with modern standards;
6. improvement in working conditions.

Whichever of these changes is adopted, the effect generally is a reduction in the number of workers required, the size of the reduction depending upon the degree of modernisation. If such a reduction were not possible, any attempt at modernising machinery would be futile as its effects would be to increase the cost of production rather than decrease it. Therefore, the problem of surplus workers is an important aspect of modernisation. As modernisation of equipment proceeds in mills, re-organisation of the working force will become inevitable. Management have to take into account the human problems involved in these changes, if they are to be brought about smoothly and without any dislocation of the industry. The cooperation of organised labour is an important pre-requisite for the successful implementation of these changes.

Very often, modern machinery can not be accommodated in old and obsolete buildings without structural modification or

changes. Occasionally, it may be necessary to construct new buildings. Such renovation or reconstruction of buildings should also be an integral part of modernisation. Further, modernisation may also be undertaken from the point of view of improving the quality of the product or its diversification and marketability. The addition of combing equipment to a spinning mill or the installation of a finishing plant in a weaving mill will be under this category of modernisation.

Therefore, modernisation as is generally envisaged, is not only the replacement of old machinery by new, but also the bringing about of those conditions and practices in industry which would enable it to be strong and efficient and withstand successfully competition as well as any changes in market conditions.

In this connection, one of the serious problems is the level of modernisation that should be achieved during the plan periods. Majority of the managements are of the view that they should be permitted to modernise to the maximum possible extent, because they consider that only such modernisation would enable them to compete successfully, especially in foreign markets. They have drawn the attention of nearly all the textile enquiry committees towards the degree of modernisation that has been achieved in other countries and are anxious that India should not lag behind in any way. Labour on the other hand is equally anxious that modernisation should not result in any unemployment among industrial workers.

But from the point of view of strengthening the economy of

the country and that of the textile industry in particular, neither of these two approaches are helpful. Modernisation to the maximum possible extent on a national scale is not possible, because of the vast amount of finance involved and also because of the large percentage of the labour force that would have to be re-absorbed. On the other hand, failure to modernise in time may bring about the very condition of distress and unemployment in industry that labour is so anxious to avoid. It is a well known fact that several mills in India today, are running with old and obsolete equipment. Some of them have been in difficulties and quite a few have been closed down altogether resulting in total and permanent unemployment of workers in these concerns. If this state of condition is to be prevented from spreading to other units also, then modernisation is rendered inevitable.

Another factor that is relevant to this discussion is the considerable variation in technological and managerial efficiency that exists in the textile industry today. In any large industry comprised as it is of over 656 units some of which are very large and others extremely small-some differences in efficiency and cost of production between the best and the worst units is inevitable. But this difference today is abnormally wide. While in India there are some mills which can stand comparison with the good mills in other parts of the world, there are many others whose efficiency is so low and production methods so inefficient that they are a drag on the national economy.[1]

---

1. Report of the Textile Enquiry Committee, September 1954, p. 9.

Therefore, one of the first objectives of any scheme of modernisation should be to ensure that these inefficient units are brought up to a minimum standard of efficiency and the gap between the most and and the least efficient unit is considerably reduced.

In the light of the above discussion, the level of rehabilitation and modernisation from a national point of view should be governed by the following factors:

(i) the finance that is available,

(ii) the degree of labour displacement, and

(iii) the need to ensure a minimum standard of efficiency in all units.

Taking all these three factors into account, it can be recommended that there should be a minimum level of modernisation in all units- a level below which no unit should be allowed to exist. This level should be such that it should enable the mill to stand on its own feet without any further assistance from external sources and without causing undue hardships to workers. Secondly, mills which have already reached or even exceeded this level of modernisation may also modernise further, provided they have or can arrange the necessary resources.

Here, it is also necessary to set out some elementary facts. The machinery installed in different units of the textile industry is bound to get out of commission sometime or the other, whether it is maintained properly or not. At the time of such replacement, the

new machines which take the place of the old ones may necessarily be of the modern type. It would not be practicable to suggest that the old machines should be replaced 'like by like' for the mere reason that the technological progress in the machinery making industry itself turns out only the modern machines invariably capable of being operated by less number of operatives. Thus, even on the basis of such inescapable replacement there is bound to be a measure of modernisation in the industry which is not to be questioned as to why but how much at any time. It has also been seen that even in the highly developed countries with per capita income and labour productivity high, the urge to modernise is all the greater. This progress can not be stopped.

In the United Kingdom, the industry had lagged behind with the result that its size continued to remain high at 24 million spindles and 245 thousand looms while the productivity could not be compared with that in other developed countries.[1] The industry and the Government had, therefore, to tackle the problem on unorthodox lines. After the re-organisation the industry emerged as considerably modernised and rationalised. In Japan also after the devastation of the Second World War, both out of necessity and in accordance with the genius of the people, the cotton textile industry in company with many other industries is now highly modernised, rationalised and efficient.[2] In India, in view of several factors

---

1. White Paper issued by the U.K. Government covering the scheme of reorganisation of the industry.
2. Report of the Indian Productivity Team, "Cotton Textile in USA, Japan, France, West Germany and Switzerland, p. 26.

the pace of modernisation has had to be slow and it cannot, therefore, afford to keep the industry back from its legitimate urge and need for rehabilitation and modernisation.

At this point, it is worth-while to analyse the general technical changes necessary for modernising the Indian textile industry as they apply to specific processes. For the purpose of discussion these processes will be divided into three main groups- spinning, weaving, and finishing, with the preparatory steps that accompany each operation.

Prior to spinning, the baled cotton is brought into the mill, opened, and mixed in various proportions, depending upon the count and the cost desired, in the 'mixing' room. From there it goes to the 'blow' or 'pick' room for cleaning; leaves this room as a 'lap' bound for 'carding' or, in the finer qualities, for 'combing', and emerges as a continuous, thin, easily breakable 'silver'.

The silver then goes through various drawing, twisting, and lengthening processes carried out on draw, slubbing, inter, and possibly 'roving' frames. After these preliminary steps, some of which may be bypassed or combined (especially the 'roving), the longthening and twisting is completed on the ring spinning frames which turn out the final yarn. Throughout the spinning there is a continuous transfer from spindles and bobbins of one size to another.

The warp, which runs the length of the cloth, must be made

into very long lengths. This first requires 'winding' on to larger packages, called 'cheeses', which are then combined to form warping 'beams'. These 'beams' are then 'sized', i.e. run through a starching solution for toughening, before they are transferred to the weavers' beams. The yarn is next taken for 'drawing', where the desired weaving pattern is prepared; and the weavers' beams with the attached 'healds' and 'reeds' are taken to the looms.

After weaving, cloth may either be sold as 'grey' cloth, which is normally simply 'calendered' and possibly 'damped', then folded, stamped, and baled for shipment, or sent for 'finishing'. The degree of finishing varies. It is usually singed, desized, bleached, and dyed and/or printed; it may also be starched, stretched, calendered, raised and sanforized (all of which call for specialised and frequently expensive equipment) before it also goes for folding into piece lengths, stamping, and baling.

The order and fundamentals of processing have remained approximately the same over the past fifty years, but in industrially advanced countries like U.S.A., U.K. and Japan there have been many particular changes aimed at either raising the productivity of the machine or the worker or at improving the final quality. The introduction of new processing machinery largely centres around improving the quality by reducing breaks and strengthening the yarn, which also has the incidental effect of enabling a single worker to handle more equipment. Another major direction of change has been the greater investment in finishing equipment. There has been a

widespread automatization of the final packaging and shipping, which results in the low labour costs in these processes.[1]

In the light of above technological changes adopted by the industrially advanced countries, some of the specific changes required by the Indian industry in processing and finishing on a larger scale are as follows:

The Indian mills have to change their blow-room machinery in order to introduce labour-saving continuous processing rather than the present system of separate units. This also improves the cleanliness of the cotton and the 'evenness' of the 'lap' so as to reduce later breakages.[2]

In carding, new machines are to be introduced both to replace very old carding machines (which are frequently among the oldest machines in the mill) and to improve the quality of the yarn. A combing process (the introduction of which is relatively new in India) is to be introduced on a wider scale with the aim of producing a finer yarn. Simultaneously, there is a need for reduction of the doffer speed of the carding machines, which would both improve the quality and increase the demand for machines.[3]

In spinning, there is to be an increasing attempt towards

---

1. Report of the Indian Productivity Team, "Cotton Textile in USA, Japan, France, West Germany and Switzerland". p. 27
2. Mill Owners Association, Bombay, Facts about the Cotton Mill Industry in India, 1969, p.7
3. Ibid, pp. 9-10

high draft (particularly the casablanca type) systems, especially in mills spinning coarse and medium yarns. This permits elimination of one or two of the 'fly-frame' process, and the casablanca system permits the elimination of roving and leads to a much longer as well as stronger strand, making it possible for a single worker to handle more spindles. An important characteristic of the newer spinning frames is their larger lifts, which not only increase the capacity of the packages significantly but also are necessary for the more efficient use of Barber-Colman warping and winding machines.[1]

One of the most important developments to be adopted in the industry is the introduction of the costly automatic Barber-Colman machines. These are American manufactured machines which cost approximately 5 lakh rupees for a two-unit warping and winding installation, in contrast to approximately 2 lakh rupees for the non-automatic ordinary high-speed installation of the same capacity. However, the characteristics of automatic[2] knotting, good cleaning, and low tension (apart from the much lower labour force) make this machine both more efficient and of far higher quality than the ordinary warping-winding installation. Several managers in quality-conscious mills are of the view that even if efficiency were below expectations the improvement in quality alone would make the introduction of these machines necessary. Since this machine, because of its automatic character, does require a better yarn than the ordinary

---

1. Mill Owners Association, Bombay, Facts About the Cotton Mill Industry in India, 1969, p.7
2. Estimated Financial Requirement for Modernisation submitted before the Second Central Wage Board for Textile Industry (1967-68) by the Indian Cotton Mill Industry, Bombay, pp. 3 to 5.

machinery, it may require additional investment in earlier stages to be economical.[1]

There should also be an increased use of high-speed sizing units. Their cost is about 1,50,000 rupees per machine, compared to 50,000 rupees for the older-type machines, but their output is approximately three times as high and the labour requirements are lower. Possibly even more important, they permit improvements in quality and control of yarn tension, which are desirable for the weaving.

The automatic loom may require improvements in yarn and preliminary processing if it is to be used economically.[2] However, its automatic character, with automatic stopping and battery changes, ensures cloth of uniform quality, with no ends missing and evenly spaced pickings. Furthermore, in contrast to the two to four ordinary looms which could be handled by one weaver, the automatic looms allow greater productivity per worker (as high as 60 looms per worker). The maximum limit on yarn breaks per machine hour is less than one; for the ordinary loom the limit may be over ten breaks per hour, (the cloth with fewer breaks is the better cloth). The range of prices for automatic looms is from 5,000 rupees for a Japanese loom to 10,000 rupees for a Swiss loom- with corresponding quality differences.[3]

Large scale investments are also required in finishing equipment with an increase in the use of continuous-process finishing machinery,

---

1. Estimated Financial Requirement for Modernisation submitted before the Second Central Wage Board for Textile Industry (1967-68) by the Indian Cotton Mill Industry, Bombay, pp. 3-5.
2. Ibid.
3. The estimates submitted by the Indian Cotton Mill Industry, Bombay before II Wage Board op.cit.p.7

in place of the less automatic types, which permits both a uniform quality and some reduction in cost. There should also be a continued introduction of additional finishing processes. For example, printing machines of increasing variety are to be introduced to produce multi-coloured and more resistant prints; and raising machines, sanforizing machines, and various types of calenders are to be increasingly introduced to turn out a wider variety of finishes. All these changes are in industry's interest in appealing to a wider market. But, perhaps a greater stimulus is the fact that the cost of introducing new finishing machinery is far less than the cost of improved spinning and weaving machinery. Poorer mills can afford the finishing machinery, which permits a wider variety of output without the major expenses of thorough modernisation of production equipment.

Now it is proper to estimate the cost of modernisation. With similar objectives, one of the surveys was conducted by Working Group for the textile industry in 1960 and the other survey was carried out in 1964 by the National Industrial Development Corporation. The cost of modernisation based on replies from the mills to the Working Group and the NIDC are discussed below

BLOW ROOM:

The industry carries with it about 65 per cent of the machinery of over 20 years old, of which about one-third dates back to periods prior to 1920. The remaining 35 per cent are mostly post-war machines. As a first essential at least all the machines in the blow room which were installed prior to 1920 would require to be replaced as a measure

of urgency. This would come to about 20 per cent of the total installation. The total number of blow room lines included in this analysis is about 94 costing about Rs. 3.25 crores. But this represents only those mills which had replied to the questionnaire which form a total capacity of 3.7 million spindles, forming about 27 per cent of the total capacity. If we project this figure to the total capacity, the amount will come to Rs.11.5 crores for the industry. If we disallow the post-war spinning units, the net amount required would be about Rs. 9 crores.

CARDS :

Taking the cards, the industry carries with it about 70 per cent of cards of prior to 1939 make,of which about one-third are over 40 years old. About 25 per cent of the cards are of post-war make. From the replies received it is seen that by and large the industry wants to replace cards over 30 years old i.e. of prior to 1920 make although some centres have asked for replacement of cards of later makes also. The total requirement as seen from the replies for replacement of cards is about Rs. 4 crores for a capacity of 3.7 million spindles which would mean a total requirement of Rs. 12 crores for the industry.

SPEED FRAMES:

Taking the speed frames, the industry carries about 70 to 80 per cent of its capacity with over 30 years old machinery of which

again one-third is over 30 years. The total amount asked for by the mills who have responded to the questionnaire is about Rs. 3.6 crores for a total of one-third capacity of the mills excluding the post-war spinning mills. It would mean a total requirement of Rs. 11 crores for the speed frames for the industry as a whole.

RING FRAMES:

As regards ring frames, the industry is somewhat more favourably placed and has only about 15 per cent of the capacity, on an average, of ring frames over 30 years old. There is no doubt that all the frames prior to 1920 should be replaced as a measure of urgency. The amount asked for by the mills who have replied to the questionnaire for the purpose of replacement of ring frames is about Rs. 14 crores which on projection, will give a figure of about Rs. 40 to 45 crores.

COMBERS, DRAW FRAMES, DOUBLING FRAMES, ETC.

The amount for replacement as given in the replies is about Rs. 7.2 crores. It is seen in this connection that there has been a large demand for combers in the various centres. The cost of high speed comber set as seen in the estimates given by mills is about Rs. 4 lakhs. The total number of combers required by the mills who have replied is about 146 sets. These mills have already got 126 sets and most of these requirements for combers is for additional installation as a large percentage of the existing combers is of the

post-war make. Combers are imported items. Perhaps 25 per cent increase of the combers for the Five Year Plan period may be sufficient which would mean an expenditure of about Rs. 4 to 5 crores for the industry as a whole. A further Rs. 4 to 5 crores may be provided for the draw frames and doubling frames. It would mean a total expenditure for the combers, draw frames and doubling frames to the maximum extent of Rs. 10 crores.

WEAVING PREPARATORY:

An analysis of the replies received from the mills in response to the questionnaire shows that invariably textile mills want to go in for Barber Colman machines and high speed winding and warping machines. The total requirement on the basis of the analysed figures will be about Rs. 15 crores for both winding and warping and sizing. The broad break-down of this amount would be about Rs. 10 crores for winding and warping and Rs. 5 crores for sizing.

WEAVING :

The replies received to the questionnaire have revealed that almost every one in the mill industry like restriction to be removed and installation of automatic looms, irrespective of other considerations, is allowed, rather as a forceful spurt in the tempo of rehabilitation and modernisation of the industry. The Textile Enquiry Committee (1958) gave appropriate consideration to the several factors and recommended that the Government as well as the Trade Unions should

create a proper psychological climate within the country and particularly amongst the labour so as to facilitate the introduction of automatic looms within a specified period.

On the basis of the replies furnished, it will be seen that about 80 to 85 per cent of the looms in the industry are more than 30 years old of which about half will be more than 50 years old. There is, therefore, an imperative necessity for replacement of looms which are over 50 years old. Even well-developed sectors of the industry are still keeping as much as 70 to 80 per cent of their looms, which are over 30 years old and in some areas about 77 per cent of looms are even 40 to 50 years old. In this connection, it will be relevant to note that the very centres which have got a larger concentration of old looms have kept them in working order by spending relatively larger expenditure than in the other centres.

It is seen from the analysis that an amount of Rs. 13.7 crores has been programmed for automatic looms by the 94 mills which have replied to the questionnaire. This provision for automatic looms covers 18 to 20 thousand looms, with an average cost of about Rs.7,000. If this is taken as guide, the industry would like to replace 30 per cent of their looms by automatic looms. Even assuming that automatic looms to this extent visualised are not allowed, there is an imperative necessity for replacing at least 50 per cent of the very old looms (over 50 years old). This would mean replacement of at least 40,000 looms which would cost about Rs. 10 crores. A further provision of Rs. 10 crores may be made for replacement of ordinary looms by automatic looms, as also Rs. 5 crores for ancillary equipment.

Certain centres where particularly no significant attention had been paid to the looms, may be going in for a substantial amount of expenditure on looms' replacement. Thus, the total requirement for weaving side may be assessed at Rs. 30 crores for the industry or about Rs. 6 crores per year during the Five Year Plan period.

PROCESSING :

An analysis of the mills who have replied to the questionnaire shows that on the processing side, the expenditure in the past has been rather negligible in quite a large number of centres. The replies given to the questionnaire show that the expenditure visualised by the analysed mills accounting for a capacity of 72,000 looms is nearly Rs. 13 crores which on projection to the entire industry will give a figure of about 25 crores. While this may be taken for the all-India estimate, the mills which are at present not having any processing facility would require to be given appropriate priorities.

TABLE - XXV

ENGINEERING AND HUMIDIFICATION AND BUILDINGS

The total amount asked for by the 94 mills who have replied to the questionnaire is as under:

		Rs.(Cr.)
Power Plant and Engineering	..	1.24
Electrical installations and others	..	2.58
Humidification ..	..	1.93
Buildings ..	..	3.55
Total (roughly)		10.00 Cr.

The total amount of requirement of the entire industry will, therefore, be about Rs. 25 crores. The individual requirement will vary from mill to mill.

To summarise- The industry during the five year plan was expected to require the following amounts:

TABLE - XXVI

COST OF MODERNISATION BASED ON REPLIES FROM THE MILLS TO THE WORKING GROUP FOR TEXTILE INDUSTRY 1960

		Rs.(in Cr.)	
SPINNING:			
	Blow Room ..	9	
	Carding ..	12	
	Speed Frames ..	11	
	Ring Frames ..	42	
	Combers ..	5	
	Draw Frames and Doubling Frames	5	
			84
WEAVING PREPARATORY:			
	Winding and Warping ..	10	
	Sizing ..	5	
			15
WEAVING:			
	Ordinary Looms ..	10	
	Conversion of automatic looms	10	
	Export ..	5	
	Ancillary Items ..	5	
			30
PROCESSING: ..	..		25
BUILDING AND ENGINEERING:	..		25
	GRAND TOTAL:		179. Say 180

ESTIMATES GIVEN BY N.I.D.C.
(COTTON TEXTILE LOAN ADVISORY COMMITTEE)

The National Industrial Development Corporation has been receiving applications from cotton textile mill companies for loans. As at the end of March, 1960, 112 applications have been received, the total value of which works out to about Rs. 48 crores. There have been some revisions in the process of examination of loan applications and the final figure of requirements for these 112 applications has been estimated at about Rs. 43 crores. It is quite true that these applications cover, broadly speaking, only the minimum requirements of most of the units who had not come up with full and desirable programme for modernisation of their units. The applications received so far cover about 40 lakhs spindles and 66,000 looms which account for about 30 per cent of the installed capacity of the entire industry and have been received from all types of units from the very weak units to relatively stronger ones. Assuming that the applications are more or less representative of the industry as a whole, the projected value of the applications on the basis of 30 per cent actual for assessing the requirements of the entire industry would come to a figure of about Rs. 145 crores, for the requirements of the entire installed capacity. The rehabilitation and modernisation schemes submitted alongwith the applications have included the requirements for new and modern spinning machinery, weaving machinery, processing machinery and other miscellaneous items such as power plant, humidification, ventilation, lighting, mechanical handling workshop equipments and also modern

buildings in particular cases. From the analysis of the schemes a general picture emerges regarding envisaged expenditure in different sections of the mills under broad headings such as spinning,weaving, processing and rest. It has been estimated that spinning accounts for about 50 per cent of the envisaged expenditure with weaving and processing at 15 per cent each, the balance of 20 per cent being envisaged for miscellaneous items including buildings.

ESTIMATES BY STANDING COMMITTEE OF AD-HOC COMMITTEE FOR TEXTILE MACHINERY.

The Standing Committee for the textile machinery industry constituted by the Central Government sometime back worked out the requirement of various types of textile machinery during the Third Plan by taking into account the normal life of textile machinery. The Standing Committee felt that although the normal life of machine could be expected to be of the order of about 40 years, yet in most cases, it was found, that on account of lack of finance, etc., Mills were slow and often took a longer time in replacing their machines. Therefore, for a more realistic assessment of the rate of replacement, the Committee took the view that, by and large, 50 years should be taken as the life of machinery in general except for those where the rate of obsolescence is higher on account of the technological developments in respect of particular items of machinery. The Committee was broadly of the view that about

50 per cent of the preparatory machinery, viz. winding and warping machines etc. used in the textile mills is obsolete and their replacement would be effected half by fully automatic machines like Barbar Colman and the other half of high-speed winding and warping machines. Similarly, 50 per cent of the existing high-speed winding and warping machines would be replaced by fully automatic.

Further, the Committee rightly came to the conclusion that during the Third Plan Period, an all-out effort has to be made to scrap all units, with machinery which are beyond redemption and in their place establish new modern units with latest labour saving machinery and uptodate finishing plant capable of producing new varieties of cloth required for export market. It was estimated that about 3 lakh spindles and some 4,000 looms at present existing with some of the permanently closed mills have to be scrapped and replaced by new ones.

So far as looms are concerned, the committee's view was that apart from the replacement of looms in the scrapped mills, replacement of other looms will proceed at the rate of 3,000 looms per year by automatic looms and the rest of requirement for replacement would be met by instalment of new plain looms.

As regards processing machinery, the view taken was that the life of the unit was not as important as its obsolescence. One another aspect that was not lost sight of was the trend in processing and the new developments that have taken place of late in new methods and new

techniques in finishing of the cloth.

The question of total requirement, as assessed by the Committee for replacement and rehabilitation purposes was considered at the time when, the concern of the Central Government for a bold approach to the problem was not anticipated and, therefore, the estimate did not reflect the extra keenness of the industry to modernise as speedily as possible or the realisations in the method and amount of financial assistance that N.I.D.C. and other government or semi-government financial institutions might be contemplating for the future. It is, therefore, proposed that the estimate of the standing committee should be increased by about 50 per cent which will account for the lack of maintenance during the past 10 years which back-logged in rehabilitation, has to be met over and above the normal replacement during the next 5 years. The Committee also did not take into account the various ancillary and service facilities which would be required in the case of modernisation, neither did it provide for alteration to buildings, etc.,nor the cost of erection of machinery. Taking all these factors into consideration, the cost of modernisation and replacement as estimated by the Working Group for the cotton textile industry 1960 which accorded a 50 per cent addition to the estimate given by the standing committee may be summarily stated as under:

TABLE - XXVII

S.No.	ITEMS OF MACHINERY	Requirement During Third Plan Period(Rs.Cr.)
1.	Spinning and Weaving Machinery	82.4540
2.	Processing Machinery	27.2125

balance b/f	109.6665
3. Auxiliary and service facilities (such as humidification, electrification, ventilation, etc. at 20 per cent).	21.9333
4. Modernisation and alteration to buildings, erection cost of machinery etc. at 10 per cent	10.9665
	142.5663
Plus 50 per cent vide paragraph 6 of the report (working party for the cotton textile industry, 1960).	71.2832
GRAND TOTAL:	213.8495

MODERNISATION DURING 1965-66 TO 1968-69P

Planning for modernisation of the Cotton Textile Industry makes it necessary to determine the extent of rehabilitation and modernisation required in terms of a carefully assessed proportion of the overall installed capacity. A survey intended to study these aspects at the unit level was conducted by the office of the Textile Commissioner in July-October 1969. A questionnaire was addressed to all the cotton textile mills in the country but replies were received from only 229 mills. Of these, 61 are mills which are either new not requiring any modernisation or mills which have not contemplated any modernisation programme. Thus, the effective number of units which have furnished their rehabilitation and modernisation programme is 168. Although the overall response can not be considered as very good, the data furnished in the

replies received are helpful in providing a broad idea of the pattern of developments taking place and of the future requirements of the industry.

As regards modernisation during 1965-66 to 1968-69, no reliable statistics on the extent of modernisation carried out by mills during the past years are available. Provision was, therefore, made in the questionnaire for collection of data regarding the year-wise expenditure on rehabilitation during the said period. The data furnished in the replies are observed to have certain limitations. No uniform definition of rehabilitation and modernisation has been adopted, with the result that some of the mills have included the expenditure on expansion in the reported figures. Wherever possible, an attempt has been made to separate the figure of expenditure on rehabilitation and modernisation, but such a procedure could not be adopted in all cases for want of necessary details. Notwithstanding these limitations, the data collected throw valuable light on the extent of rehabilitation and modernisation carried out during this period. The following table summarises the year-wise expenditure on modernisation by the 168 reporting mills classified according to whether spinning of composite.

TABLE -XVIII

EXPENDITURE ON MODERNISATION

(1965-66 to 1968-69: in Rs.Lakhs)

YEAR	SPINNING (63 units)	COMPOSITE (105 Units)	TOTAL (168 Units)
1965-66	132.96	1485.57	1518.53
1966-67	213.94	1431.59	1645.53
1967-68	162.38	1304.44	1416.82
1968-69	188.11	1130.96	1319.07
TOTAL:	697.39	5352.96	6049.95

SOURCE: Indian Textile Bulletin, Nov.1969, Survey on Modernisation.

The average annual expenditure during the period works out to about Rs. 15.1 crores, of which the share of spinning mills is Rs. 1.7 crores and composite mills Rs. 13.4 crores. The Table reveals that the pace of modernisation during the last two years has been slower than in the earlier two years, perhaps due to the crisis which the industry was going through during these years. It needs also to be remembered that the data for 1968-69 is not complete, as the accounts of a few of the responding units had not been finalised at the time of reporting.

The programme carried out by mills show wide variation in expenditure. Following table gives the frequency distribution of mills according to the total expenditure on modernisation during the period.

TABLE - XXIX

FREQUENCY DISTRIBUTION OF MILLS ACCORDING TO EXPENDITURE
(1965-66 to 1968-69)

(A) SPINNING MILLS		(B) COMPOSITE MILLS	
Expenditure (in Rs.lakh)	No. of Mills	Expenditure (in Rs.lakh)	No. of Mills
Nil	23	Nil	10
0 - 4	10	0 - 20	33
4 - 8	4	20 - 40	18
8 - 12	10	40 - 60	12
12 - 16	-	60 - 80	8
16 - 20	6	80 - 100	11
20 - 24	1	100 - 150	6
24 - 40	6	150 - 200	4
Above 40	3	Above 200	3
	63		105

SOURCE: Indian Textile Bulletin, Nov. 1969, A Survey on Modernisation.

The table reveals that about one-third of the reporting mills and about 10 per cent of composite mills have shown the expenditure on modernisation as Nil. Out of the remaining mills, more than 50 per cent spinning mills have shown the expenditure on modernisation from 0 to 12 lakhs and less than 50 per cent have incurred expenditure between 16 to 40 lakhs. Similar trend is also reflected in case of composite mills where more than 50 per cent of the reporting composite mills incurred expenditure between 0 to 60 lakhs and less than 50 per cent have shown their expenditure on modernisation between 60 to 200 lakhs. This clearly indicates complete absence of a well planned modernisation for the entire Indian textile industry. Further, the State-wise expenditure during the period by mills, classified according to spinning and composite reveals that 59 per cent of the expenditure by spinning units has been in Tamil Nadu, while for composite mills the major States have been Gujrat (36.6%); Maharashtra(29.2%) and Tamil Nadu (20.1%). The share of these three principal States in the total expenditure are 33.3%, 28.2% and 23.7% respectively, i.e. the share of the rest of India in expenditure on modernisation comes to less than 15 per cent, which is a further proof of the earlier view about unsystematic expenditure on modernisation.

To clarify the issue further, it would not be out of place to analyse the department-wise modernisation during 1965-69 period. From the information furnished, an attempt has been made to study the extent of modernisation in the different departments. Here

again, the position revealed can be taken only as a broad indicator of the department-wise modernisation, on account of the non-adoption of any uniform procedure for classification of machinery.

TABLE - XXX

DEPARTMENT-WISE MODERNISATION

(1965-66 to 1968-69;Rs.in lakh)

YEAR	SPINNING	WEAVING	PROCESSING	ENGINEERING & MISCELLANEOUS	TOTAL
1965-66	571.02	559.93	333.68	153.90	1,618.53
1966-67	824.51	318.33	331.55	171.14	1,645.53
1967-68	687.75	383.23	254.44	141.40	1,466.82
1968-69	615.94	305.68	265.65	132.00	1,319.07
TOTAL:	2699.22 (44.62)	2567.17 (25.90)	1185.12 (19.59)	598.44 (9.89)	6,049.95

Figures in brackets represent percentages to total.

SOURCE: Indian Textile Bulletin, November 1969 (A Survey on Modernisation).

It would be seen that 44.62 per cent of the modernisation expenditure has been incurred in the spinning departments, 25.90 per cent in weaving, 19.59 in processing, and 9.89 per cent in engineering and miscellaneous departments. The table shows that while in 1965-66 the expenditure on weaving and spinning was nearly equal as well as the largest among the departments, in the subsequent years that on spinning has been the largest. The shares of processing and engineering & miscellaneous departments have been around the

average levels of 20 per cent and 10 per cent.

MODERNISATION PROGRAMME IN THE FOURTH PLAN PERIOD:

Planning for modernisation of the cotton textile industry in the Fourth Plan has hitherto been on a macro basis. Both the working group on Textile machinery (1968) and the Working Group on Textiles (1969) have proceeded to determine the extent of rehabilitation and modernisation required during the Plan period in terms of a carefully-assessed proportion of the overall installed capacity. While such an approach was no doubt dictated by the perspectives they were required to adopt by their terms of reference, the stage for deeper study of the subject at the unit level has now been reached. For, necessarily the drawing up of suitable policies and programmes for modernisation in the Plan period will have to take into account the conditions obtaining in the individual units, the areas and the nature of modernisation required by them and the obstacles they are likely to face in undertaking such a programme. This is particularly so as, in the draft Fourth Plan (1969-70 to 1973-74), it has been recognised that the programme for the cotton textile industry would be primarily related to modernisation. A survey intended to study these aspects at the unit level was conducted by the office of the Textile Commissioner in July-October 1969. The report of the survey is in two parts, the present one dealing with the financial aspects and the second with the technical aspects. The survey regarding the financial aspect was conducted with the

following objectives:

(i) to assess the extent and nature of modernisation programmes undertaken by mills in the past and the pattern of their financing, items on which no reliable information is available so far,

(ii) to collect data on the modernisation programmes to be undertaken by mills during the Fourth Plan period,

(iii) to assess the pattern of financing proposed, and

(iv) to find out from the mills the difficulties likely to be faced, particularly in the matter of raising the required resources.

A questionnaire was addressed by the author to all the cotton textile mills in the country but, as earlier stated, replies were received from only 229 mills by the end of 1969. Of these, 61 are mills which are either new not requiring any modernisation during the Plan period or mills which have not contemplated any modernisation programme. Thus the effective number of units which have furnished their rehabilitation and modernisation programmes is 168. Of these, 32 mills had a negative value for the average ratio of gross profits to sales during the period 1965-66 to 1968-69, gross profits being reckoned before depreciation, and may not, in that sense, be considered viable. Due to the disturbances in Gujrat during September 1969 and the textile strike in West Bengal during September-October,1969, many mills of these regions did not forward their replies to the questionnaire. Although the overall

response can not be considered as very good, the data furnished in the replies received are helpful in providing a broad idea of the pattern of development taking place and of the future requirements of the industry.

A conceptual difficulty which arises in a study of this nature is in the demarcation of machinery installed into those forming part of rehabilitation and modernisation and those for other purposes like expansion. These are somewhat relative terms and would depend on the machinery already installed in any unit. For instance, although the addition of processing equipment by a unit not having it earlier may be considered as expansion, it has been treated in this study as a programme of modernisation because of the nature of its effects. Similarly, in regard to the manner of treating machinery added for balancing purposes, all balancing machinery added have been reckoned in the study as forming part of rehabilitation and modernisation, excepting spindles and looms proposed to be installed during the Fourth Plan period, as this would depend on the licensing policy to be adopted.

Information on these lines was called for in regard to the modernisation programmes envisaged by mills during the Fourth Plan period, viz. 1969-70 to 1973-74. The data furnished by mills are subject to the aforesaid limitations. An additional aspect is that some of the mills have indicated that their modernisation programmes for this period are still under formulation. As these would involve a very careful evaluation of market data, production requirement,

advancement in technology, etc., it has been reported that it would take several months for the mills to complete them. To this category belong certain large and well established units, which are known to have a continuous programme of modernisation. A few of the other mills have formulated proposals for only the first few years of the period and have stated that the programmes for the later years would have to be finalised in the light of the developing situation. Subject to these limitations, the reporting mills have programmed for a modernisation investment of Rs. 104.87 crores, as would be seen from the details in the following Table:

TABLE- XXXI

MODERNISATION IN THE FOURTH PLAN
(1969-70 to 1973-74)

(in Rs. lakhs)

YEAR	SPINNING	COMPOSITE	TOTAL
1969-70	507.02	1,922.06	2,429.08
1970-71	411.30	2,359.11	2,770.41
1971-72	244.08	2,014.52	2,258.60
1972-73	218.77	1,526.39	1,745.16
1973-74	173.46	1,111.09	1,284.55
TOTAL:	1554.63	8,933.17	10,487.80

SOURCE: Indian Textile Bulletin, Nov.,1969,(A Survey on Modernisation).

The relatively lower values for the last two years are to be attributed, as explained earlier, to the non-finalisation of their

programmes by many mills. The annual average level of the modernisation programmes by both spinning and composite mills has increased to Rs. 3.15 crores and Rs. 17.90 crores respectively from the levels of Rs. 1.95 crores and Rs. 13.65 crores for the earlier period 1965-66 to 1968-69.

The frequency distribution of mills according to the total expenditure on modernisation proposed is given in the following Table:

TABLE -XXXII

FREQUENCY DISTRIBUTION OF MILLS ACCORDING TO EXPENDITURE (1969-70 to 1973-74)

(A) SPINNING MILLS		(B) COMPOSITE MILLS	
Expenditure (in Rs. lakh)	No. of Mills	Expenditure (in Rs. lakh)	No. of Mills
Nil	2	Nil	11
0 - 4	5	0 - 20	8
4 - 8	9	10 - 40	17
8 - 12	8	40 - 60	20
12 - 16	8	60 - 80	11
16 - 20	5	80 - 100	9
20 - 24	3	100 - 150	17
24 - 28	4	150 - 200	5
28 - 32	2	Above 200	7
32 - 36	3		
36 - 40	1		
Above 40	13		
	63		105

SOURCE: Indian Textile Bulletin, November 1969. (A Survey on Modernisation).

The distribution given above differ from those of 1965-69 period, not only due to the difference in their respective periods but also due to the higher tempo of modernisation envisaged during 1969-70 to 1973-74 and increase in prices. The average annual expenditure envisaged is higher at Rs. 4.68 lakhs per spinning mill and Rs. 16.04 lakhs per composite mill as compared to Rs. 2.30 lakhs and Rs. 12.40 lakhs respectively for the earlier period.

The department-wise modernisation programme envisage 53.59 per cent of the investment in spinning, 27.79 per cent in weaving, 14.53 per cent in processing and 4.09 per cent in engineering and miscellaneous as is evident from the following Table:

TABLE- XXXII

DEPARTMENT-WISE MODERNISATION

(1969-70 to 1973-74)

(Rs. in lakhs)

YEAR	SPINNING	WEAVING	PROCESSING	ENGINEERING & MISCELLANEOUS	TOTAL
1969-70	1,135.66	473.39	330.36	125.67	2,065.08
1970-71	1,292.01	687.06	412.80	91.54	2,483.41
1971-72	1,094.00	610.20	310.55	51.65	2,066.60
1972-73	849.28	520.76	138.33	42.39	1,550.76
1973-74	653.65	314.47	170.42	72.01	1,210.55
TOTAL:	5,024.60 (53.59)	2605.88 (27.79)	1362.46 (14.53)	383.46 (4.09)	9,376.40*

*exclusive of a total of Rs.1,111.40 lakhs for which break-up has been not be reported.

Figures in brackets represent percentages to the total.

SOURCE: Indian Textile Bulletin, November, 1969.

A significant feature of the pattern of modernisation is that while the shares of the processing and engineering departments have declined from 19.39 per cent to 14.53 per cent and 9.89 per cent to 4.09 per cent respectively, those of spinning and weaving have increased from 44.62 per cent to 53.59 per cent and 25.90 per cent to 27.79 per cent respectively. These would point to the fact that mills are emphasising more on the modernisation of spinning and weaving departments, where, as is well known, the scope for modernisation is considerable because of the obsolete machinery installed and the technolgical changes that have taken place.

The State-wise expenditure classified according to spinning and composite mills shows that Tamil Nadu would continue to account for 39 per cent of the total expenditure programmed by spinning mills, while for composite mills, the major States would again be Gujrat (31.0 per cent), Maharashtra (38.6 per cent) and Tamil Nadu (11.9 per cent). These three States together account for 81.5 per cent of the total programmed expenditure of both spinning and composite units.

For reasons already explained, the total of Rs. 104.88 crores given in the earlier table does not provide a full idea of the requirements of the reporting mills. In addition, account will have to be taken of the requirements of non-responding units to arrive at the needs of the entire industry. It is rather hazardous to estimate the later, as the modernisation needs will vary from unit to unit, depending on the age, nature and condition of machinery installed in individual units, the extent of modernisation already

carried out, the overall financial position and the expected availability of resources. However, the broad trend revealed in the programmes received is a confirmation of the assessment of the working Group on Textiles that a modernisation target of Rs. 180.55 crores in the Fourth Plan period is an absolute minimum. Our contention regarding this figure as an absolute minimum gets further support when we compare it with the estimates made by the Indian Cotton Mills' Federation, Bombay, which envisaged the modernisation expenditure during the Fourth Plan period at Rs. 552 crores. The Federation, in its submission made before the Second Central Wage Board for the cotton Textile Industry in 1966 estimated the following financial requirements for rehabilitation and modernisation of the cotton mill industry for the Fourth Five Year Plan period. It took into account machinery prices as affected by devaluation.

TABLE: XXXIV

FINANCIAL REQUIREMENTS OF THE COTTON MILL INDUSTRY FOR THE FOURTH PLAN
(Consequent on Devaluation)

ITEM	Financial Requirement prior to Devaluation (Rs. in crores)	Financial Requirement after the Devaluation (Rs. in crores)
Planning Group estimate for rehabilitation and expansion during the Fourth Plan at 1963-64 f.o.b. ex. work prices		
I. TEXTILE MACHINERY:		
(a) Imported Cotton Machinery	41	65
(b) Imported content of indigenous machinery	56	88
(c) Indigenous machinery excluding its export content.	169	169
	266	322

balance b/f	266	322
II. MISCELLANEOUS ITEMS:		
(a) Humidification, heating, lighting, power, etc.	71	80
(b) Estimated rise in price of machinery for 1963-64 at 25 per cent of the above	84	100
(c) Estimated requirement of land and building to carry out expansion.	50	50
TOTAL:	471	552

SOURCE: Estimates submitted by the Indian Cotton Mills' Federation, Bombay, to the Second Wage Board for Cotton Textile Industry 1966-68.

The Planning Group on the textile machinery has estimated in its report that the indigenous production of the textile machinery would amount at Rs. 225 crores during the Fourth Plan. Substracting this from Rs. 266 crores which is the requirement of textile machinery, there will be a gap of Rs. 41 crores to be met through imports. Further, the Planning Group in its Report has estimated that the import content of indigenous machinery is 25 per cent which would mean that the import content of indigenous machinery worth Rs. 225 crores would work out to Rs. 56 crores. In other words, rehabilitation and modernisation of the textile industry would involve foreign exchange worth Rs. 97 crores during the Fourth Plan period. This is a colossal amount specially if we keep in view the foreign exchange crisis which the country is facing.

Against the estimated requirement of Rs. 552 crores of the

Indian Cotton Mills Industry during the Fourth Plan period, it would be interesting to note that the U.S.A. made new investments to the tune of Rs. 570 crores in its textile industry in 1964 and an estimated amount of Rs. 750 crores in 1965. Canada spent Rs. 146 crores in 1964-65, Japan Rs. 247 crores in 1964 and the United Kingdom Rs. 50 crores per year on the average for the years 1960-63.[1] The comparative data enlightens the vast needs of the cotton textile industry on this front.

SUMMARY AND CONCLUSION:

The survey indicates that there is a growing recognition among mills of the benefits of modernisation, particularly in the context of the increase in the cost of raw materials, stores, wages, etc. Some of the mills have admitted that, but for the modernisation already carried out, their net profits, which although were on the decline would have been turned into losses. But it is also a fact that modernisation through such changes requires huge financial resources. For complete modernisation of the Indian cotton textile industry, the required expenditure has been roughly estimated in the range of Rs. 1,000- 1,500 crores. As such, not-withstanding the awareness on the part of the mills to modernise, it should be recognised that the investment decision of such a huge sum on modernisation will, in the ultimate analysis, depend on the expectations of return, which in its turn, will depend on the general level

---

1. Jaipuria, R.R. Industrial Efficiency in Indian Textile Industry. (Oct.,1969 publication) p.156.

of profitability in the industry. According to the industry, the present level of profitability in cotton textiles is low and such an assessment may be presumed to have conditioned the programmes drawn up by individual units. With difficulties being anticipated in raising internal resources a considerable portion of the requirements will have to come from term-lending institutions, commercial banks and other organisations. This underlies the need to tap different sources of capital market in the following Chapter.

———oo0oo———

CHAPTER - IV

THE SOURCES OF FINANCE FOR MODERNISATION

I have mentioned in the previous Chapter that approximately over Rs. 1,000 crores would be needed for modernisation of Indian Cotton Textile Industry. These funds can not be derived from one single agency. It is, therefore, proposed to study the sources of finance from internal and external agencies. Even in advanced countries, considerable amounts have been invested by financial institutions in the modernisation of the textile industry. For instance, the total investment in the textile industry for a five year period i.e. 1959-63 is Rs. 20,000 millions in U.S.A.; Rs. 8,200 millions in Japan; Rs. 4,200 millions in France and Rs. 5,600 millions in U.K. (only for four years 1959-62). In West Germany, the total investment for the period 1961-65 is Rs. 9,000 millions.[1] Apart from employment potentialities, the Indian Cotton Textile Industry pays about Rs. 125 crores by way of excise duty to the Government.[2]

---

1. Report of the Study Group for Cotton Textiles, National Commission on Labour 1968, pp. 37-40.
2. Ibid, p. 40

Hence, it should be the primary responsibility of the Government to save the industry from further deterioration. It should develop special agencies to finance the programme of modernisation. As mentioned above, Rs. 10,000 millions can not be raised from the internal sources. A fair amount has to be mobilised from external sources. This Chapter analyses the sources of external finance for the purpose. Let me now turn to discuss the position of the Indian Capital Market to examine its role for the supply of necessary funds.

INDIAN CAPITAL MARKET:

Growth of industrial enterprise in a country is limited by the availability of savings. Private savings can not easily be channelised towards industry because of their preference for traditional forms of investment like landed property, bullion, hoarding, gilt-edged securities, etc. which may provide better safety and social status. Further, the record of industry itself, in under-developed countries, may be such as to discourage savings from being invested in it. In the initial stages of industrial development, raising of capital is a formidable problem due partly to the incapacity of public and partly to the unwillingness of persons to take risks. As more and more industries are successfully set up, public confidence and capacity grow and the task of securing capital becomes relatively easier. Thus, the quantum of available savings determines the extent of industrial investment.

Savings are influenced by the economic and industrial policy, political stability, prospects of profit earnings, and monetary and credit policies followed by the Government. The pattern of taxation- particularly direct taxation of individuals and corporate enterprises- also has a direct impact on the rate of saving and investment.

There is need for stepping up significantly the saving-income ratio. It requires concentrated effort on the part of Government and the general public. In a country like India, with low per capita income, small savings schemes and contractual forms of savings like Provident Funds and Life Insurance have to play an important role. Since these modes of raising resources are directly in Government's hands, its role in the mobilisation of savings is substantial. Fiscal measures have been taken by the Government in the form of compulsory Deposit Scheme and Annuity Deposits. Efforts should also be intensified to mobilise rural savings.

Mobilisation of personal savings for industrial investment is a slow process since it involves breaking down of old habits and traditions which die hard. It requires imaginative and co-ordinated efforts in various directions besides creating a measure of confidence that savings invested in industrial concerns would be safe, secure, remunerative and readily marketable. Just as government propaganda is carried on to popularise schemes of small savings, similarly considerable educational and instructional publicity can be taken up to impress upon the public the value of diverting part of their savings in well-managed and long-established concerns with good record

of paying regular dividends.

A well-developed capital market presumes the existence of not only the investors- individual and institutional- but more significantly the existence of a net-work of specialised institutions and agencies which are always on the look-out for investment in new ventures. The capital market in India may be classified into two categories, viz. organised and un-organised. In the organised sector of capital market, demand for long-term capital comes from corporate enterprises, Government and semi-Government institutions requiring funds for various developmental activities. The sources of supply of funds comprise individual investors, corporate and institutional investors like banks, investment trusts, life insurance companies, finance corporations, Government and international financing agencies. In India, even the organised sector of capital market, till recently, was ill-developed due to the fact that agriculture, constituting the main occupation, did not lend itself to the floatation of securities; and the growth of securities market was hampered because the foreign business enterprises, which accounted for the greater part of industrial development in the past, depended on the London Capital Market rather than on the Indian market. Further, the managing agency system, to a large extent, was also responsible for the non-development of the capital market, for the managing agents acted both as promoting and marketing agencies, and the capital market was characterised by an absence of special institutions to float new issues. Moreover, the total number

of securities which were traded in on stock exchanges was not large. Government securities accounted for nearly half the total volume of issues in the capital market. Further, the speculators were mostly interested in a short list of speculative shares. As a result, the class of investors to purchase industrial securities on a wide basis was small and there was absence of continuous dealings in a large range of securities.

The unorganised sector of the capital market consists of indigenous bankers in towns and money-lenders in rural areas and there is no close contact between its different constitutents. This sector is more or less cut off from the organised sector, and the supply of funds at their disposal falls short of the requirements made on them. Mostly, these bodies finance consumption rather than production and the rates of interest charged by them are exorbitant.

Now it can rightly be said that the capital market in India, till the recent past, had all the characteristics usually available in an under-developed economy. It was conspicuous by the absence of institutions like professional promoters, investment or issue houses, under-writing agencies, and financial intermediaries. This impeded the free flow of savings to industrial investment resulting in the stagnant character of Indian economy. Thus, serious flaws existed in the structure of capital market in India. After the achievement of independence in 1947, a trend towards an organised growth of capital market can, however, be marked.

Soon after the achievement of Independence the urgency of

proceeding with large scale industrial development led to the establishment of a number of special and development corporations, beginning with the Industrial Finance Corporation of India in 1948. Besides the I.F.C., the other long-term financing agencies in existence in India now are 15 State Financial Corporations, the Industrial Credit and Investment Corporation of India, and the Industrial Development Bank. India has now an adequate net-work of special institutions for providing medium and long-term finance to industry. These various corporations have not so far done much in the field of mobilisation of resources from the investing public other than institutional investors. The maximum rates of dividends that have been fixed for these corporations (other than the ICICI) are not attractive to non-institutional investors, despite the fact that they carry minimum guaranteed dividends.

In the post-independence period, life insurance business in India has recorded a singificant progress. Investment of insurance funds in shares and debentures of companies increased from Rs. 24.5 crores in 1948 to Rs. 59.5 crores in 1955. After the nationalisation of Life Insurance companies in 1956, the Life Insurance Corporation has come to occupy an important place in the capital market of India. The investment of the L.I.C. in shares and debentures of corporate undertakings increased from Rs. 57.7 crores in 1956 to Rs. 159.2 crores at the end of March, 1965.

Moreover, the integration of the organised and the unorganised

sectors of capital market on the one hand and the money and capital markets on the other has been proceeding ahead steadily. The growth of joint stock form of business, the expanding role of the Reserve Bank in the sphere of rural credit, the establishment of various financial corporations, the extension of banking into the interior, the diversification of the functions of commercial banks, government assistance to industry have all been the contributive factors to this integration. The pool of investible funds is widening and from this common reservoir funds are being channelised into the different directions, partly in accordance with statutory requirements and partly in accordance with the rate of return on investment. Now the organisation of capital market in India does not compare much unfavourably with that of the developed countries, though more concerted efforts are essential on the part of the government, investors and entrepreneurs in this direction. Two important steps have been taken in the direction of strengthening and broadening the frame-work of the capital market as the source for the supply of funds to industry. These related to the establishment of the Unit Trust of India (which started its public operation from July 1,1964) and the establishment of an Industrial Development Bank under the auspices of the Reserve Bank of India.

Foregoing discussion reveals that till the recent past, Indian capital market was ill-developed. But after achievement of independence, various developments in the Indian Capital Market, removing its basic deficiencies, may be rightly regarded as useful

steps towards an organised growth of the capital market. One of the important developments is the establishment of financial institutions like ICICI, IFCI, IDBI, etc. to provide medium and long-term financial assistance to industrial undertakings. Before we discuss in detail the financial assistance provided by these institutions to Indian industries with special reference to cotton textile industry of India, it would be relevant to discuss the role of Indian Banks towards the industrial finance, specially medium and long-term needs.

INDIAN BANKS AND INDUSTRIAL FINANCE:

Provision of finance by banks for various requirements of industrial enterprises has been a subject of much acrimonious comment in India. The Indian Central Banking Enquiry Committee examined this issue in details in 1930-31. Recently, the Shroff Committee studied the memoranda submitted by various associations of industry, commerce and banks. For having an accurate and exhaustive perusal of the problem, we may split up the discussion in three parts: (a) financing of industry by industrial banks; (b) provision of long and medium term finance to industry by commercial banks, i.e. mixed banking and (c) short-term financing.

INDUSTRIAL BANKS:

The Swadeshi Movement of 1906-13 saw the first attempt on the part of commercial banks (particularly in Punjab) to extend

their activities in the sphere of industrial finance. Industries, started under the new spirit of Swadeshi Movement, were intended to be financed by these so-called industrial banks. The more prominent among these banks were the Indian Specie Bank, the People's Bank of Punjab, the Lahore Bank, the Doaba Bank, the Hindustan Bank, the Industrial Bank, and the Central Bank of India. But the financial crisis of 1913-15 brought a large number of these banks to grief. During World War I and in the post-war period, company promotion was accelerated by the prevailing boom conditions. The spectacular achievements of Japan and Germany in the industrial field and the close contact between their industrial and banking systems gave impetus to Indians to copy that pattern.

The second Indian experiment in industrial banking began with the establishment of the Tata Industrial Bank in 1917. "Industrial banks became the fashion of the day, but only few of them could be described as banks, and none as Industrial."[1] All these banks had to close down in the course of a few years, because the enthusiasm of Indians to transplant the German model on Indian soil could not make up the deficiency of the requisite knowledge and experience indispensable for the successful conduct of such specialised operations. There was confused thinking about the constitution, functions and activities of German banks. Pioneers of Indian industrial banks could not appreciate the principle of their working that "every line of their activities was self-balancing." While German banks had enormous paid-up capital, and used the issue of debentures to supplement their funds and never adopted the policy of

---

1. Ibid, p. 140

permanent retention of industrial securities, Indian industrial banks had meagre funds of their own; debentures never found favour with them and their funds were, mostly, locked up permanently in industrial scrips. They were primarily deposit banks but indulged in investment banking. Further, loans were given recklessly to pet concerns of the management. The affairs of the borrowers were never scientifically investigated and large amounts were advanced to worthless concerns without adequate security. Consequently, their loans became non-liquid. Apart from it, the investments were not properly diversified and wisely selected. The security offered was not assessed scientifically. Safety of investment was sacrificed for high speculative return and frenzied speculation became, many a time, a part of their normal activity. They purchased speculative securities to earn high dividends and to pay high rate of interest on deposits accepted. Moreover, the inefficiency of directors in many cases created doubts about their bonafides. Dividends were paid out of capital to conceal the real state of affairs from the share-holders and other outsiders. The concerns in which the directors were interested were heavily financed without taking into consideration their soundness or financial standing. Every sort of banking business was undertaken without following the necessary steps responsible for the successful running of credit or mixed banks. Indiscrete combination of the short-loan banking with long-term credit business resulted in locking up of funds of the banks. Thus the ignorance and imprudence of Indian bankers made the position

still worse.

The disappearance of these industrial banks after a hectic career of 3 to 4 years should not induce one to conclude that Indian conditions were unfavourable for the growth of such institutions. In copying the German model, Indian banks failed to follow the right technique of their operation. Factors responsible for their successful running were generally ignored. The Tata Industrial Bank, after floating a number of industrial concerns which ultimately failed, had to be absorbed with the Central Bank of India. The Calcutta Bank came to grief after two years of its establishment. The Kamani Industrial Bank floated steamship companies and other industrial concerns but they all went into liquidation. The Indian Industrial Bank did ordinary banking business for some time and then it ceased to exist.

INDUSTRIAL BANKS WITH STATE ASSISTANCE:

Besides the establishment of industrial banks under private enterprise, the necessity of setting up a special institution for solving the problem of industrial finance in India had been stressed by various bodies. The Industrial Commission recommended the establishment of industrial banks as early as 1918 and was of the opinion that "an industrial bank should possess a paid-up share or debenture capital high in proportion to its total business; it should observe the usual precautions in not allowing too large a share of its funds to be used for the benefit of any single interest or

group of financially inter-dependent interests; its loans on plants, buildings and land should be carefully considered and should be limited in each case, the larger portion of its industrial business should be confined to the provisions of working capital; it should provide initial capital with caution, at any rate during its opening years, and should not itself at first attempt to float companies, though it may advise and assist in other ways persons who propose to do so. The main factor of safety in an industrial bank is the judicious limitation of each class of business to its proper proportion.[1] By recommending the establishment of an industrial bank modelled on the lines of the Industrial Bank of Japan, the Industrial Commission desired to confine the larger portion of bank's business to the provision of working capital only and thus failed to appreciate that such restriction would defeat the very purpose for which the bank was being started.

The witnesses submitting oral or verbal evidence before the Indian Central Banking Enquiry Committee were divided on the issue of the establishment of industrial banks with State assistance. Most of the Indian witnesses, whether they were economists, indigenous bankers, commercial banks, chamber of commerce, individuals or other corporate bodies, emphasised the necessity of some sort of special institution for the provision of long-term industrial finance. On the other hand, adverse observations were made by the foreign experts and foreign banks' representatives. The Central Banking

---

1. Report of Industrial Commission, Para 291.

Enquiry Committee made a suggestion for the formation of provincial industrial corporations but did not work out the details for their constitution, functions, limitations, etc.

During the inter-war period, the emphasis shifted from industrial banks to industrial mortgage banks specially after their establishment in the continental countries. "The most outstanding development in recent years in the formation of what are known as industrial mortgage banks granting long-term amortisation loans against industrial property like factories, plant, etc. The Industrial Mortgage Bank of Finland, the Industrial Mortgage Institute of Hungary, the Provincial Mortgage Bank of Saxony and the National Economic Bank of Poland are instances in point. While all of them receive a guarantee on their debenture bonds, some are private Joint Stock banks while others are entirely owned or partially owned by the State."[1]

The difference between industrial bank and industrial mortgage bank lies in the fact that mortgage banks neither take up issue and under-writing business nor maintain or regulate the prices of industrial securities in the share market. They merely grant long-term loans on the mortgage of fixed assets such as plant and machinery, and building.

With the establishment of Industrial Finance Corporation and various State Financial Corporations for the provision of long-term

---

1. Supplementary Note submitted by Dr. P.S. Loknathan to N.P.Committee of Industrial Finance, See Report p. 142.

finance to large scale industries and medium or small-scale industries respectively, the issue of industrial banks or industrial mortgage institutions has now become obsolete and of historical importance only.

MIXED BANKING:

Mixed banking implies the blending of deposit banking with investment banking. The essence of this system is the provision by commercial banks of short-term, medium-term and long-term capital to industries. The question of providing long-term finance to industries by commercial banks was examined in details by the Indian Central Banking Enquiry Committee in 1930-31. It had concluded that well established banks like the Imperial Bank (now the State Bank of India) and nine other big joint stock banks might utilise 10 per cent of their capital and reserves in the issue of shares and debentures of industrial companies like German Credit Banks. The Imperial Bank had specially been asked to take lead but the recommendations of the Committee rested in oblivion.

The Macmillan Committee of the U.K. had observed in 1929 that "in any community which wishes to keep in the van of progress, the financial and industrial world should be closely integrated through appropriate organisation". Moreover, there is hardly an example in economic history where such a separation of banks (into short-term and long-term finance) has existed and has expedited industrial progress. On the contrary, examples of countries which

adopted mixed banking and hastened their industrialisation are more numerous.

In 1954, the Shroff Committee gave considerable thought to the possibility of banks supplying long-term capital to industries. The trend of evidence submitted to the Committee on this subject was of a mixed character. While representatives of industries, in general, asked that banks should make greater finance available to meet long-term requirements of industry, the bankers emphasised that their primary function was to restrict themselves to short-term financing. However, some representatives of banks expressed their readiness to provide long-term finance against fixed assets, provided such advances could be made eligible for borrowing from the Reserve Bank of India. The Committee concluded that commercial banking practice has proved sufficiently helpful in providing finance to industries within the limits of the resources available today to banks in India. "This practice, however, does not preclude and has not precluded advances of a medium or long-term character provided individual banks are satisfied in their own judgement that such advances are for moderate amount in consonance with ordinary banking prudence and are also consistent with maintenance of liquidity."[1]

The commercial banks through their large number of branches and through their contact with capital and money markets and all lines of business are in an advantageous position to study the prospect of each enterprise against a comprehensive perspective

---

1. Report of the Shroff Committee, p. 48.

of economic setting as a whole. They are the best qualified agency to offer advice, guidance, and material assistance for the implementation of long-term financial plans. They come in contact not only with financial problems but also with other allied problems of industries in the course of their usual business of short-term financing. The experience gained in one branch of financing may prove of great use in other. Moreover, their intimate relationship with the financial policies and problems of the industry should be of benefit to the large investing public. They can act as reliable guide to the investor by taking a balanced long-term view of the future.

The International Monetary Fund Mission which visited India in 1953 observed that the difficulties regarding adequate credit for industries were due to traditional and conservative attitude of the Indian Banking system. Short-term loans for day-to-day operations were available, but credit had not been forthcoming in adequate measures for replacement and acquisition of machinery. As a consequence, the bulk of the available bank credit went to financing the holding of goods and very little went to financing the expansion of production. The Planning Commission also called upon the banking system to prepare for a programme of judicious credit creation somewhat in anticipation of the increase in production and the availability of genuine savings and for a change in the traditional outlook.

During the last few years, there has been a marked change in the attitude of commercial banks to provide medium and long-term

finance to industrial undertakings in India, through investment in corporate securities, advancing long-term loans, underwriting the securities, investment in Finance Corporations and advances against corporate securities. This trend is evident from the fact that the investment of scheduled banks in corporate securities has shown a steady increase from Rs. 11.22 crores in December, 1956 to Rs. 21.81 crores in March, 1963 or an increase of about 100 per cent. But such investment as a percentage of total investments of scheduled banks did not show any marked increase. For instance, investment of scheduled banks in corporate securities as a percentage to toal investments amounted to only 2.5 in December, 1956 and 2.9 in March, 1963, it is due to a substantial rise in the amount of total investments of scheduled banks from Rs. 442 crores in December, 1956 to Rs. 752 crores in March, 1963. On the other hand, percentage of investment in Government securities by scheduled banks figured at 83.4 per cent in March,1963. This state of affairs may partly be attributed to the nature of banks' liability, which are preponderately payable on demand, and partly due to the risks inherent in industrial investment.

As regards long-term loans, a few banks in India do make advances to industries against fixed assets but no uptodate details are available regarding the total volume of such advances. It is estimated that at the end of the busy season of 1961-62, the total outstanding medium term credit provided by 43 leading banks totalled Rs. 79 crores and formed 14 per cent of their total industrial advances. A part of advances given ostensibly for short-term is allowed to be renewed from time to time. This part of finance by 'rolling over' does meet the long-term requirements of industries to a certain extent.

The participation of banks in share issues may entail a greater risk than the grant of long-term loans. A loan may normally be expected to turn into cash in the course of its career extending over a calculable period, whereas the investment does not ordinarily liquidate itself in cash and may only be converted into cash after shifting it to other investors. The chief danger of share participation is loss, whereas that of long-term loan is illiquid. . . Participation in industrial securities provides a narrower margin of safety than is available for a loan, because in case of a loan the share capital of the borrowing concern is regarded by the lending bankers as a hedge against risk.

Further, the role of banks in underwriting operations has recently been very important. Of the total amount of Rs. 68 crores underwritten during the period 1960-63, 19 per cent was underwritten by banks. Banks in industrially advanced countries have played a significant role in the provision of long-term finance by forming syndicates to take up underwriting and issue business. But in India, instead of purchasing the industrial securities directly, the banks make their funds avilable for industries through specialised finance corporations, like the Industrial Finance Corporation and State Financial Corporations, Industrial Credit and Investment Corporation etc. and have also subscribed to their share capital. Recently, the Reserve Bank, on the recommendations of the Shroff Committee, has approved such securities carrying a guarantee of the central or State Governments for advances under Section (17)(4)(a) and thus has enlarged the scope of bank's indirect participation in long-term

industrial credit.

Moreover, the advances of the scheduled banks against the shares and debentures of joint stock companies amounted to Rs. 118.19 crores out of the total advances of 1,530 crores as on February 22, 1963, as compared with Rs. 49.8 crores as on December 31,1954. The current practice of the Reserve Bank is to look with disfavour on any advance made by banks against industrial equities. If the Reserve Bank's control over such advances becomes more discriminating and liberal than at present, more finance will be available for industrial development.[1] It will facilitate the private sector in getting financial accommodation from Banks on such shares and debentures in a more liberal and substantial amount.

Recently, it was suggested[2] that there was scope for commercial banks' extension of medium-term credit within limits which could safeguard their liquidity in view of their greater experience in the finance of working capital requirements, their closer knowledge of the credit-worthiness of borrowers, and absence of rigid procedural delays in their dealings. Besides, a good portion of the demand loans was, in effect, allowed to continue for a long time through recurrent renewals or rolling-over of short-term overdraft and cash credit arrangements. This implied that the basic character of much of the short-term credit was not very different from that of formal term credit. Where short-term credit was in fact performing the same function as medium term credit, a formal term loan had the

---

1. Memorandum submitted by the Andhra Chambers of Commerce to the Shroff Committee.
2. Madan, B.K. "Role of Commercial Banks in Developing Countries" Reserve Bank of India Bulletin, June 1964.

advantage of regular repayment of instalments. It would, therefore, be beneficial for banks to examine their credit portfolios and, to the extent possible, adapt the form of some of their loans to the purpose they fulfilled.

In September, 1961, the Governor of the Reserve Bank of India argued the case against the commercial banks' participation in term lending. It indicated a complete change in the attitude and policies of the Reserve Bank over the last five years. In 1958, the Reserve Bank, having established the Re-finance Corporation for industry, felt that the pattern of planned development to which the Indian economy was committed made it incumbent on banks to enter new lines of business. Term-lending was obviously a new line of activity. The Reserve Bank seems to have developed a belief in the orthodoxies of traditional banking rather late in the day. The realisation that banks were financing long-term fixed assets formation with the roll-over of short-term funds perhaps induced the Reserve Bank to give a signal for asking banks to return to traditional banking. The Governor of the Reserve Bank felt that the banking system could ill afford to lock up large funds in long-term asset, first, because it affected the liquidity of the banking system, and secondly, because it made it difficult for the banks to meet the working capital needs of trade and industry.

It is rather surprising to note the change in the attitude of the Reserve Bank on term-lending particularly when the resources for term-lending are provided to the banks by the Refinance Corporation (now taken over by the Industrial Development

Bank) by way of refinance. Thus it is wrong to say that term-lending by commercial banks affected the liquidity of the banking system. Moreover, a certain amount of blending of functions or multi-purpose growth of the banking structure should be allowed as it promises the best results, provided, the scheme is operated with some 'built-in safeguards against impairment of the liquidity of the banking system." The problem is, however, not merely one of liquidity. Steps should be taken for supplementing banks' resources.

In order to enable banks to play an increasing role in the rapid industrialisation of the country without in any way upsetting the confidence of depositors, it is essential that the owned resources of banks should be increased by raising the paid-up capital either through issue of additional shares or by increasing their reserves and should also explore the possibility of supplementing their funds by issuing debentures. Further, insurance of deposits as in the U.S.A. and insurance of loans and advances as in Japan should be organised. Finally, the banks should widen their profit-margin by enhancing their efficiency and controlling their expense ratio.

As regards the recent trends in bank advances, there has been a progressive rise in the share of industry in the total bank credit during the recent years. But, here too, the newer industries (like engineering; and chemicals, etc.) claimed a relatively larger share of the increase in scheduled banks' advances to industry as compared to the traditional industries (like cotton textiles, jute and sugar)

as is evident from the fact that the share of engineering industries in total credit to industry rose from 8.0 per cent to 21.3 per cent during this period. This indicates that Indian Cotton Textile industry has to approach the specialised financial institutions to overcome financial crisis and modernise itself in accordance with changing circumstances. Now let us examine as to how far these financial institutions are able and willing to meet the genuine and urgent needs of the Indian cotton and textile industry. With this end in view, we propose to discuss the part played by important financial institutions like the Industrial Finance Corporation of India, the Industrial Credit and Investment Corporation of India, The Life Insurance Corporation of India, the Unit Trust of India, the National Industrial Development Corporation and the Industrial Development Bank of India, in providing long-term financial assistance to the industries in general and the cotton textile industry in particular.

THE INDUSTRIAL FINANCE CORPORATION OF INDIA:

The need for a specialised institution in India for catering the long-term needs of industries arose generally, on the one hand, due to the absence of a well developed capital market and the dearth of issue houses and underwriting firms, and on the other, due to the policy pursued by the commercial banks, in the analogy of British banking practice, to eschew long-term industrial financing. The problem of industrial finance assumed a new fangled shape after World War-II due to reconversion of war-time industry to a peace-time

basis, re-equipment of industries by effecting replacements and renewals in plant and machinery; rationalisation and expansion of existing industrial units; and establishment of new industrial enterprises under the planned economy.

The Industrial Finance Corporation of India, set up in 1948, provides financial assistance to large-scale industrial concerns particularly in circumstances where normal banking accommodation is in appropriate or recourse to capital issue method is impracticable. The Corporation is authorised to grant loans or subscribe to debentures of industrial concerns repayable within a period not exceeding 25 years. It is also authorised to underwrite the issue of stock, shares, bonds or debentures by industrial concerns, but it must dispose of such securities within seven years. Further, guaranteeing the loans raised by industrial concerns, which are repayable within a period not exceeding 25 years, is also within its authority. It also acts as agent for the Central Government in respect of loans sanctioned by it to industrial concerns and extends guarantee in respect of deferred payments by importers who are able to make such arrangements with foreign manufacturers.

The I.F.C.I. completed 22 years of its working on June 30, 1970. During this period, as a pioneer in the field of long-term industrial financing, it played an effective role. During this period of 22 years, it sanctioned a net total financial assistance of Rs. 362.09 crores. About 70 per cent of this assistance was

sanctioned in the setting up of new units; 27 per cent for expansion of existing units; 2 per cent for modernisation, renovation, etc. of the existing units; 1 per cent for purposes like working capital. The disbursement of funds on an annual average figured at Rs. 2.08 crores during 1948-55; Rs. 7.8 crores in 1956-60; Rs. 16.30 crores in 1961-63 and Rs. 32.53 crores during 1964-69. The bulk of the amount (more than 30 per cent) was disbursed during the last six years (1964-69).[1]

An industry-wise distribution of financial assistance (net) approved by the Corporation indicates that more than three-fourths of the assistance was sanctioned to sugar, chemicals, non-ferrous metals, engineering, textiles and paper industries which is evident from the Table-XXXV.

The table indicates that the financial assistance provided by the I.F.C.I. to textile industry was 16.7 per cent of its total assistance in 1964. The percentage increased to 19.3 in 1965, but afterwards decreased and went down to as low as 2.8 per cent in 1967. The percentage in subsequent years increased but remain short of 1964 & 1965 figures. As regards the financial assistance to other industries, the trend indicates more emphasis to sugar and chemical industries. In case of sugar industry, its share in financial assistance, which was only 3.4% in 1964 rose to as high as 41.3 per cent in 1968 and even in 1969, when it came down, it stood at 23.6 per cent, i.e. more than the maximum ever received by the textile industry. As regards the chemicals, the

---

1. Annual Reports. IFCI 1949 to 1969.

TABLE - XXX V

INDUSTRY-WISE FINANCIAL ASSISTANCE BY I.F.C.I.

(lakhs of rupees)

GRAND TOTAL (including those not separately shown)	YEAR	TEXTILES		SUGAR		JUTE		RUBBER		PAPER		CHEMICALS		OTHERS	
		Total	(%)	Total	(%)	Total	(%)	Total	(%)	Total	(%)	Total	(%)	Total	(%)
3827	1964	638	16.7	130	3.4	-		84	2.1	122	3.1	701	18.3	2152	56.3
3344	1965	655	19.5	281	8.4	-		176	5.3	223	6.7	496	14.9	1513	45.2
4352	1966	265	6.1	288	6.6	-		-		340	7.8	640	14.7	2819	64.8
2255	1967	64	2.8	210	9.3	-		32	1.4	153	6.8	142	6.3	1654	73.4
2673	1968	260	9.7	1110	41.5	-		150	5.6	8	0.3	511	19.1	634	23.8
3066	1969	375	12.2	723	23.6	574	18.7	256	8.3	164	5.3	624	20.4	350	11.5

SOURCE: Annual Reports of I.F.C.I. from 1964 to 1969.

the share in financial assistance was 18.3 per cent in 1964 which showed a downward trend from 1965 to 1967 but again increased and crossed even 1964 percentage of 18.3. Further, the Jute industry which was totally ignored till 1968, attracted the attention of I.F.C.I. in 1969 and got a share of 18.7 per cent in its first attempt. This indicates that, comparatively, other industries, specially, sugar and chemicals are getting more emphasis than the textile industry which in spite of its urgent needs and requirements is not getting even that attention which other industries are getting.

We have seen that I.F.C.I. is, no doubt, providing valuable financial assistance to Indian industries, but the trend of its assistance to textile industry is downward where as to other industries specially, sugar and chemicals it is upward. Now let us see the comparative position of financial assistance provided to the Indian textile industry by the I.C.I.C.I.- another important financial institution of India.

THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA:

The I.C.I.C.I. was incorporated on January 5,1955, for the specific purpose of assisting the industrial enterprises within the private sector by assisting in the creation, expansion and modernisation of such enterprises. It provides finance in the form of long or medium-term loans or equity participation; underwrites

shares and securities; guarantees loans from other private investment sources; and furnishes managerial, technical and administrative services to Indian industries and also assists in obtaining these services.

The Corporation has carved out for itself a prominent place during the period of fifteen years of its existence. It has played an important role in the development of the industries in the private sector by providing not only loans but also risk capital through direct participation in share capital and underwriting of capital issues. It has also earned the distinction of being a pioneer institution in India to provide financial assistance in foreign currency.

The total of net operations sanctioned during the 15 years since the inception of the Corporation in 1955 upto the end of 1969, amounted to Rs. 261.55 crores to 536 companies, of which 214 were new undertakings. One hundred forty-seven companies were sanctioned assistance both in rupees and foreign currencies. Of this assistance, Rs. 151.78 crores have been given in the form of foreign currency loans to 374 companies, Rs. 52.91 crores in the form of rupee loans and guarantees to 126 companies, Rs. 50.33 crores in the form of underwriting to 148 companies and Rs. 6.53 crores by way of direct subscription to 35 companies.[1] The industries benefitting from the Corporation's assistance cover a wide range and include paper, chemicals, pharmaceuticals, engineering, sugar, rubber, textiles,

---

1. I.C.I.C.I. 15th Annual Report 1969, pp. 14-17.

cement, electrical goods, shipping, etc.

Quantitatively speaking, I.C.I.C.I., has as yet made a small impact on industrial finance in the country. However, the importance of this institution should not be measured in quantiative terms alone. What is more important is the nature of its operation and whether it fills a need not met by the conventional sources of finance. In this context, it may be pointed out that the Corporation has emerged as one of the most important underwriting institutions in India. The Corporation has also built up contacts abroad, particularly with International Finance Corporation, Commonwealth Development, Finance Company and some leading investment concerns and banks in the United States, U.K. and West Germany. Further, it has assumed an important role as a supplier of foreign credit. Finally, the corporation has succeeded in taking up the establishment of an investment centre to encourage and promote participation of private foreign capital.

The I.C.I.C.I. is the only institution of its kind which specialises in securing assistance for Indian industries from foreign countries. It has relatively large foreign exchange resources and still larger foreign connections. Its association with the World Bank, foreign commercial banks and investment banks, has enabled it to get more funds from abroad.

The Corporation is devoting special attention to financing riskier non-traditional industries, particularly metal-based and

TABLE - XXXVI

INDUSTRY-WISE DISTRIBUTION OF FINANCIAL ASSISTANCE

NATURE OF INDUSTRY	1961		1963		1965		1967		1969	
	Net Amount sanctioned	%age to total	Net Amount sanctioned	%age to total	Net Amount sanctioned	%age to total	Net Amount sanctioned	%age to total	Net Amount sanctioned	%age to total
CHEMICALS	539	12.6	1328	16.0	1939	15.7	3867	19.4	5401	20.6
METAL PRODUCTS	190	4.4	636	7.6	2804	22.6	4142	20.7	4638	17.7
MACHINERY MANUFACTURE	377	8.8	731	8.8	1504	12.1	2311	11.6	2615	10.0
ELECTRICAL EQUIPMENT	330	7.7	777	9.3	1061	8.6	1910	9.6	2082	8.0
TEXTILES	119	2.8	288	3.5	764	6.2	1280	6.4	1699	6.5
REMAINING INDUSTRIES	2716	63.7	4561	54.8	4324	34.8	6446	32.3	9720	37.2
TOTAL:	4271	100	8321	100	12396	100	19956	100	26155	100

SOURCE: I.C.I.C.I Annual Reports from 1961 to 1969.

chemical industries in the fulfilment of the planning requirements of the Indian economy, as is evident from Table- XXXVI.

The table reveals that out of 17 industries, five are the major recipients of financial assistance from the I.C.I.C.I. The percentage of their share in 1961 was 36.3 which increased to 45.2, 68.2, 67.7 and 62.8 in 1963, 1965, 1967 and 1969 respectively. But among these five favoured industries, the textile industry occupies the last position as is clear from the fact that in 1961 its share out of the total assistance provided by the I.C.I.C.I. was only 2.8 per cent whereas chemicals, Metal Products, Machinery Manufacture and Electrical Equipments got 12.6, 4.4, 8.8 and 7.7 per cent respectively. The table further indicates an increasing trend in the financial assistance given to textile industry which became 6.5 per cent in 1969. But still it occupies the last position among the said five industries, as is evident from 1969 figures which reveals that the financial assistance to chemicals, metal products, machinery manufacture and electrical equipment was as high as 20.6, 17.7, 10.0 and 8.0 per cent respectively.

This clearly indicates that the policy makers of the I.C.I.C.I. do not regard the needs and requirements of the Indian textile industry so much important and urgent as those of the other major industries. Now let us comparatively examine the policy of the Life Insurance Corporation of India regarding the provision of financial assistance to the Indian Textile Industry.

THE LIFE INSURANCE CORPORATION OF INDIA:

Life Insurance funds occupy a key position in the capital market of a country. This organisation helps in the mobilisation of small savings of individuals and a well conceived integrated and diversified investment plan, while furthering the interest of the policy-holders, has great potentialities of effecting a balanced development of the country. To India, in the context of the planned development of the country, the investment of life insurance funds is of major importance.

The Life Insurance Corporation Act which came into force on July 1,1956, transferred all the assets and liabilities pertaining to life insurance business of existing insurance companies to a statutory corporation, which began its functioning on September 1, 1956. The volume of new business written by the Life Insurance Corporation, both in India and outside India, has shown a steady increase after 1956. The LIC's continued progress in spreading the message of life insurance among the general public and mobilisation of savings for promoting economic development is reflected in the record of its growing new business.

The L.I.C. is taking an increasing interest in shares and debentures of joint stock companies. The investments were spread over a wide range of industries with increase in engineering, mineral, oils and cotton textiles being relatively larger. An industry-wise analysis of investments in corporate securities shows that electricity,

engineering, iron and steel, mineral oils, cotton and cement account for more than one half of the total investments. The following table reveals the financial assistance provided by the Corporation to the Indian cotton and textile industry.

TABLE - XXXVII

LIFE INSURANCE CORPORATION

DISTRIBUTION OF INVESTMENT IN 28 DIFFERENT INDUSTRIES

(Rs. in lakhs)

YEAR	TOTAL	COTTON TEXTILE	PERCENTAGE TO TOTAL
1961	102,62.91	917.13	8.9
1963	124,77.06	1216.44	9.7
1965	159,23.29	1824.12	11.5
1967	192,80.83	2251.22	11.7
1969	210,38.56	2374.10	11.3

SOURCE: Annual Reports of LIC from 1961 to 1969.

The table indicates that the share of cotton and textile industry in the financial assistance provided by the LIC. was 8.9 per cent of the total assistance in 1961. It further reveals an increasing trend of financial assistance to textile industry till 1967 when its share went up to 11.7 per cent of the total assistance. But in 1969 it came down to 11.3 per cent. In general terms, it can be accepted that there is an overall increasing trend in the financial assistance provided to cotton textile industry, but,

considering the critical financial position of the Indian cotton and textile industry, the increase in financial assistance is not of much significance and in no case be regarded sufficient to meet its huge and urgent financial needs for modernisation. Now let us examine the financial assistance provided to this industry by the Unit Trust of India.

UNIT TRUST OF INDIA:

A Unit Trust is essentially a financial intermediary which pulls the financial resources of numerous subscribers, particularly the small investors and invests these, on their behalf, in a wide range of securities. The basic objective of the Unit Trust is to offer both small and large investors the means of acquiring shares in the widening prosperity resulting from the steady industrial growth of the country. It combines the advantages of reasonable returns with minimum risk. It also helps the country by channelling savings into productive investments.

Unit Trust of India, established by the Government of India under the Unit Trust of India Act, 1963, came into operation from February 1,1964, and started the sale of units to the public from July 1,1964. The trust has been organised broadly on the lines of Unit Trust in the United Kingdom. The basic idea behind setting up of the Unit Trust was to promote savings and investment habit among people. The Trust scheme provides in a single medium all the

advantages of safety of capital, reasonable return, prospects of capital appreciation, diversification of investments, and tax concessions to the uninitiated investor. Industry-wise break-up of investments made by the Trust are shown in the following Table.

TABLE - XXXVIII

INDUSTRY-WISE INVEST OF THE TRUST
as on 30th June

(Rs. in Lakhs)

INDUSTRY	1965 Total	1965 %age to total	1967 Total	1967 %age to total	1969 Total	1969 %age to total	1970 Total	1970 %age to total
Electricity	66.18	3.18	205.35	6.44	468.92	7.79	960.22	11.91
Aluminium	56.86	2.73	112.67	3.53	397.86	6.61	586.84	7.28
Chemicals	59.22	2.85	107.60	3.37	282.70	4.70	515.81	6.40
Transport	97.98	4.71	170.27	5.34	423.71	7.04	608.18	7.54
Rubber	15.25	0.73	46.21	1.45	109.35	1.82	145.14	1.80
Engineering	293.25	14.10	513.34	16.09	1031.88	17.14	1200.05	14.88
Textile (cotton, Jute, rayon & Woolen)	443.71	21.33	644.40	20.20	1093.10	18.16	1197.38	14.85
Miscellaneous	1047.68	50.37	1390.12	43.58	2210.99	36.74	2851.45	35.34
TOTAL:	2080.13	100	3189.96	100	6018.51	100	8065.07	100

SOURCE: Annual Reports of the Unit Trust of India from 1965-1970.

The table reveals that in 1965 seven industries including textiles were receiving about 50 per cent of the total financial assistance provided by the Unit Trust of India. This percentage further increased to about 65 per cent by 1970. Butwhereas overall percentage increased significantly, the share of textiles came down to a considerable extent which is evident from the fact that in 1965 the textiles

received 21.33 per cent of the total financial aid which came down to as low as 14.85 per cent in 1970. On the other hand, the share percentage of electricity, aluminium, chemicals and transport which stood at 3.18, 2.73, 2.65 and 4.71 in 1965 increased to 11.91, 7.28, 6.40 and 7.54 per cent respectively in 1970. The table further indicates a regular upward trend in the financial assistance received by all the industries with the only exception of textiles where the regular trend is downward.

This clearly proves that the other Indian industries are getting favour of the Unit Trust of India at the cost of the textile industry which in spite of its ever increasing financial difficulties is not in a position to get favour even at the previous level. Now let me examine the policy of the National Industrial Development Corporation in helping the modernisation of the Indian cotton and textile industry.

THE NATIONAL INDUSTRIAL DEVELOPMENT CORPORATION:

The National Industrial Development Corporation was established on October 20,1954. The idea of starting the Corporation was for financing risky and large capital-consuming projects which "the private sector would not touch with a pair of tongs." The Corporation is intended mainly as an agency or an instrument of the Government for developing industries and not as a profit making institution by itself. It is designed not only to extend the public sector but also to help stipulate the private sector of the industry. The object

of the Corporation is primarily the development of industries, particularly those which are to fill the gaps in the industrial structure. It gives priority to the establishments for the manufacture of capital goods, machinery and equipment for other industries.

A provision of about Rs. 55 crores was made available for the activities of the N.I.D.C. A part of these resources (tentatively placed at Rs. 20-25 crores) was expected to be utilised for assisting the modernisation of the cotton and jute textile industries. The rest of the provision, estimated at about Rs. 35 crores, was to be made available for pioneering new basic and heavy industries.

The Corporation also functions as an agency of the Government for the grant of loans to any industry which the Government desires to assist. Initially, such a scheme of assistance covered loans to the jute and cotton textile industries for purposes of modernisation and rehabilitation. Upto March 31,1964, the loans sanctioned to Jute and Cotton textile mills aggregated Rs. 28.2 crores, against which an amount of Rs. 14.9 crores was disbursed, the corresponding figures, at the end of March 1963 were Rs. 26.4 crores of loans sanctioned and Rs. 12.0 crores disbursed. The loans granted by the Corporation are repayable in not more than 15 equal annual instalments. It would be seen that the grant of rehabilitation assistance to the jute and cotton textiles has not been substantial. A new scheme of financial assistance was introduced by the Corporation with a view to speeding up the pace of modernisation of jute and cotton

mills through short-term aid for installation of new machinery and for replacing old and worn-out machinery. Under this scheme, which is applicable only to purchase of indigenous machinery, any cotton textile or jute mill, desirous of installing new machinery manufactured within the country, may deposit 25 per cent of the cost of such machinery with the Corporation and the Corporation will make available the requisite machinery to the applicant mill. The balance of the costs of the machinery is required to be repaid in five equal annual instalments including interest at 6 per cent per annum. The total amount made available by the Corporation to the cotton textile mills under this scheme figured at Rs. 3.8 lakhs at the end of March, 1964. This indicates a very poor response to the scheme. Another scheme for providing loans to jute and cotton textile industries on short-term basis against guarantees and collateral security for the installation of imported machinery has also been introduced. But in 1963, the Government decided to discontinue the system of granting loans through the N.I.D.C. to the Cotton Textile and Jute mills for modernisation and rehabilitation. It was intended that such loan applications should be processed by the Industrial Finance Corporation. With the establishment of the Industrial Development Bank, the work of considering loan applications from jute and cotton textile mills has been entrusted to it.

The above discussion about the financial assistance provided by the N.I.D.C. reveals that the policy adopted by the Government through this corporation for modernisation, was the timely action in the right direction. Although at its initial stages the help was

not significant, even then, the continuation of such policy would have resulted in modernising the old and out-dated cotton textile industry to a considerable extent. But its discontinuation closed the doors of this Corporation upon a needy industry of India.

Now let me examine how far such assistance is channelised through the Industrial Development Bank.

THE INDUSTRIAL DEVELOPMENT BANK OF INDIA:

The Industrial Development Bank of India is the latest in the series of specialised institutions set up since Independence to provide term credit to industries. The magnitude of assistance provided by the various financial corporations, though showing a steady increase, has been considered inadequate in relation to the needs of new and growing industrial enterprises. In view of the dimensions of the problem that rapid industrialisation poses, a new institution with wider functions and larger resources than those of the existing ones appeared to be necessary, to co-ordinate the activities of all other agencies. In pursuance of these objectives, a decision was taken by the Government of India to set up a new statutory institution to be called the Industrial Development Bank of India. Accordingly, the Industrial Development Bank of India Bill, 1964, was passed by the Parliament and the Bank started its operations from July 1,1964.

In the past six years of its existence, the IDBI has concentrated its attention on provision of finance to the strategic sectors of

of industry such as cement, fertilisers and basic chemicals, besides co-ordinating the activities of other term-financing institutions. These tasks are partly traditional in nature and partly flowed from the apex character of the Bank. Further, the Bank is now taking steps to identify investment proposals in the less developed regions. It has opened regional offices and initiated jointly with the Reserve Bank, the I.F.C.I. and the I.C.I.C.I., surveys of the industrial potential of the backward regions to enable it to participate activity in the industrial development of these areas. The Bank has modified its schemes of assistance, both direct and indirect, to extend finance to projects located in specified backward areas on softer terms.

An analysis of the working of the I.D.B.I. shows that there continues to be a concentration of its assistance in the cotton textiles and sugar industries, though the reliance of other industries on its assistance has increased in the last two years; the list now includes engineering (including machine tools), electrical machinery, plastics, oil-solvent extraction plants, etc. A substantial portion of the assistance sanctioned during 1969-70 was mainly in respect of machinery manufactures, followed by textiles, fertilisers, chemicals and Road transport. An industry-wise break-down of I.D.B.I's. total assistance to industrial projects during the period July 1964 to June 1969 and during 1969-70 is shown in the following Table-XXXIX XXXIX

The table reveals that during 1964-69 four major industries including textiles were receiving about 50 per cent of the total

TABLE - XXXIX

INDUSTRY-WISE CLASSIFICATION OF ASSISTANCE BY I.D.B.I.

(in crores of Rs.)

INDUSTRY	July 1964 to June 1969		1969-70	
	Assistance Given	Percentage to total	Assistance Given	Percentage to total
Textile (including) Jute	31.2	15.3	4.8	10.1
Industrial Chemicals	21.1	10.3	4.6	9.7
Metal Industries	15.4	7.6	3.3	6.9
Manufacturing Machinery	44.7	21.9	22.6	47.7
6 Other Industries	91.7	44.9	12.1	25.6
TOTAL:	204.1	100	47.4	100

SOURCE: Annual Reports of the Board of Directors of IDBI for the years 1964-65 to 1969-70.

financial help provided by the Industrial Development Bank of India. This percentage further increased to about 75 per cent in 1969-70. But, whereas over all percentage increased significantly, the share of textiles came down to a considerable extent, which is evident from the fact that during 1964-69 the textiles received about 15 per cent of the total financial aid, in 1969-70 it came down to as low as about 10 per cent. Further, manufacture of machinery which was already having the share as high as about 22 per cent of the total assistance, claimed the lion's share in 1969-70, by reaching very near to 50 per cent of the total financial assistance

provided by the I.D.B.I. As regards the position of chemicals and metals, their share also came down but the decrease is merely by 0.6 per cent and 0.7 per cent respectively- which may rightly be regarded as insignificant. Hence, it can rightly be concluded that like other financial institutions, already discussed, the I.D.B.I. is also not showing a sympathetic and favourable treatment towards the textile industry. Let us now examine the position of this industry in the stock exchanges.

STOCK EXCHANGES:

The indifferent attitude of the specialised institutions towards the cotton textile industry has its effects on the movement of share prices. As it is well known that high share prices means cheaper credit to the industry and the desire of the cotton mills to raise the capital by means of stabilising share prices is quite natural. But the following table reveals that the security prices of cotton textiles, showing a downward trend, came down from 76.5 in 1964-65 to 73.6 in January 1971 whereas security prices of all

TABLE - XI

INDEX NUMBER OF SECURITY PRICES
1961-62 = 100

YEAR	COTTON TEXTILES	ALL INDUSTRIES
1964-65	76.5	81.6
1965-66	67.4	75.9
1966-67	64.2	81.1
1967-68	68.2	77.5
1968-69	66.1	87.9
1969-70	68.2	96.4
Jan. 1971	73.6	102.6

SOURCE: Reserve Bank of India Bulletins: Dec.1967, Oct. 1970 and March 1971.

industries maintained an upward trend and improved from 81.6 to 102.6 during the same period. Thus, the comparative study shows that the share prices of cotton textile industries have considerably lagged behind the share prices of all other industries.

The basic cause being the fact that the share prices are based upon the profitability of the industry which can not be maintained by exterior decoration, whether it may be cash dividend or stock dividend. It is, therefore, clear that it will be difficult for the cotton textile industries to raise funds from the share market. A study of the new issue market will also indicate that the downward trend in share prices has also affected the desire of the companies to raise capital from the market at favourable rates.

THE NEW ISSUE MARKET:

The position of the cotton textile industry is not much different in the new issue market as is evident from Table - XLI.

Among the various industries, engineering, electricity generation and chemicals continued to be dominant in the capital issue activity in 1969. However, the share of engineering industry in the total amount of capital issued declined from 51.6 per cent in 1968 to 23.1 per cent in 1969 and that of chemicals from 15.2 per cent to 12.2 per cent respectively, while the share of electricity generation increased from 7.9 per cent in 1968 to 17.6 per cent in 1969. It will also be noted that while the share of cotton textiles declined from 10.7 per cent in 1968 to 2.9 per cent in 1969,

TABLE - XLI

INDUSTRY-WISE CLASSIFICATION OF CAPITAL ISSUES

(Amounts Rs. in Cr.)

INDUSTRY	TOTAL		ORDINARY		PREFERENCE		DEBENTURES		TOTAL	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	1968				1969					
Electricity	7	5.43	1	0.75	1	0.15	3	9.35	5	10.25
Engineering	44	35.28	20	6.69	12	1.74	1	5.00	33	13.43
Cotton Textiles	12	7.31	4	1.66	1	0.05	-	-	5	1.71
Jute Textiles	1	0.17	-	-	1	0.25	-	-	1	0.25
Other Textiles	-	-	2	0.45	2	2.10	1	1.50	5	4.05
Chemicals	15	10.42	10	4.97	5	1.12	1	1.00	16	7.09
Cement	2	0.94	-	-	1	0.35	-	-	1	0.35
Paper	1	0.10	1	1.14	2	0.38	-	-	3	1.52
Sugar	2	0.72	2	0.22	1	0.05	-	-	3	0.27
Rubber Tyre	6	1.00	5	1.43	1	0.12	-	-	6	1.55
Banking and Finance	1	0.25	1	0.25	-	-	1	5.00	2	5.25
Others	21	6.78	9	3.30	6	0.72	2	8.50	17	12.52
TOTAL:	112	68.40	55	20.86	33	7.03	9	30.35	97	58.24

SOURCE: Reserve Bank of India Bulletin, March, 1971.

that of other textiles rose to 6.9 per cent in 1969 from nil in the previous year.

SUMMARY AND CONCLUSION:

The review of the external agencies of finance reveals very clearly that the commercial banks, specialised financial agencies, stock exchanges and the new issue market have not extended required finances to the cotton textile industries, which has left a gap between the need for funds for modernisation and the supply of funds for the purpose. The Industrial Credit and Investment Corporation of India, the Unit Trust of India, and the Industrial Development Bank of India, from where long-term loans can be expected for the modernisation are not inclined to give as much consideration to the cotton textile industry as they are giving to other industries like Chemicals, Metal Products, Machinery Manufacture, Electricals, and Engineering equipment. Most of these are new industries and afford promise of future development. Thus, the Cotton Textile Industry receives proportionately lesser financial assistance than the above mentioned industries. Again, the trend of financial assistance is downward in case of cotton textile industry as compared to these newly established industries. For rehabilitating the Cotton Textile Industry, it is important to streamline the working of the specialised institutions. Modernisation is more technical which needs more technical knowledge on the part of financial institutions. Hence, it is imperative to introduce some specialised agency such as

"TEXTILE REHABILITATION AND MODERNISATION CORPORATION" which should look exclusively to the financial needs of modernisation of this industry. This proposed organisation may further be utilised for similar other industries like the Jute Textile Industry whose needs are more or less similar to cotton textile industry. Besides this, the cotton textile industry should make efforts for making as much savings as possible and plough them back in reserves to speed up its process of modernisation.

oOOoo

CHAPTER - V

INTERNAL SOURCES OF FINANCE

THE COST AND REVENUE ANALYSIS OF COTTON TEXTILE INDUSTRY

The analysis in the previous Chapter has shown that the Cotton Textile Industry is finding it extremely difficult to raise adequate funds for modernisation. One of the conditions for attracting external resources is the financial stability and the rate of return offered by a particular industry. In this respect the financial position of the Cotton Textile Industry has deteriorated which in turn has been the main factor in obstructing the flow of external finance. Similarly, the internal source of the Cotton Textile Industry are also fluctuating as they depend upon the financial solvency and profitability of the industry. Since the profitability of the industry is based upon the cost structure and turnover, in this Chapter I have analysed these two factors with a view to measuring the earning capacity and ultimately to determining the saving ability of the industry. Let me deal them in turn in the following Sections.

SECTION - I

THE PRIME COST STRUCTURE OF COTTON TEXTILE INDUSTRY

Main factors inflating cost in this category are raw material and rising trends in wages.

The Cotton Textile Industry in India is facing an unprecedented cost inflation which has seriously curtailed its competitive capacity both in the internal and the international markets. The production cost is registering a continuous rise since 1947.

The chief elements comprising manufacturing costs are raw cotton, wages, fuel, electricity, mill stores and overheads. The price of cotton accounts for about 45 to 50 per cent of the cost of producing cloth and about 65 per cent of the cost of producing yarn. Coupled with this, is the factor of wages, which is about 28 per cent in case of cloth and 20 per cent in case of yarn.[1] Thus, without any appreciable upward change in the price of cloth and with the cost of cotton and wages going up, the textile industry has, no doubt, found itself in a very difficult situation during the last decade. These two major elements, which inflate cost and account for about 75 per cent of the total cost of production, deserve further probe.

RAW COTTON:

When India became independent in 1947, approximately 30

1. Podar Ramnath, A. 'Indian Cotton Mill Industry, Nations Premier Enterprise, op.cit. p. 235.

per cent of the cotton growing area went to Pakistan while almost all the textile mills were in India.[1] Since then, there has been a chronic cotton shortage. While cotton production has increased both in acreage as well as in yield per acre, the increase has not been commensurate with the country's requirements. This cotton shortage has been made up through imports. The following table gives an idea of the consumption of Indian and foreign cotton during the past two decades.

TABLE- XLII

MILL CONSUMPTION OF RAW COTTON

(Raw cotton consumption in lakh bales)

PERIOD	INDIAN	FOREIGN	TOTAL
1951	27.40	11.06	38.46
1955	43.04	5.80	48.84
1960	41.12	9.85	50.97
1970	56.27	7.62	63.89

SOURCE: INDIAN TEXTILE BULLETIN, April 1967 and 1971.

The table indicates an increasing trend in cotton production. In 1951, the consumption of Indian cotton was 27.40 lakh bales which increased to 56.27 lakh bales in 1970- an increase of about 200 per cent. In spite of such increase, the imports of foreign cotton continued to be a regular feature. In 1951, 11.06 lakh bales of cotton were imported which came down to 7.62 lakh bales in 1970, i.e.

1. Report of the Study Group for Cotton Textiles, National Commission on Labour, Delhi, 1968. p. 36.

a reduction by only 31 per cent. Thus, the home production of raw cotton is not proportionate to its increasing demand.

It has been noticed that imports of foreign cotton during the past two decades have varied between 5,00,000 and one million bales depending mainly upon local crop prospects. A certain portion of this viz., long staple cotton from U.A.R. and other countries, would necessarily have to be imported, because cottons with such long-staple length are not grown in India at present to any extent, while some of the Indian mills are equipped only to use this superior type of cotton. Moreover, the use of long and extra long staple is considered more economical as compared to medium and short staple cottons. Long staple cotton enables the mill to produce on an average, about 7 yards of cloth as compared to about 4 yards per lb. of medium and short staple cotton.[1] Further, the production of dhoties and sarees, which still continue to be the traditional mode of dress for the Indian masses, require yarn of finer counts. There is thus quantitative as well as qualitative deficiency of cotton in the country making imports from abroad unavoidable.

Generally, the import policy for raw cotton is decided on the basis of the expected indigenous production, the estimated requirements of the industry and, of course, the availability of foreign exchange for such imports. Often, due to paucity of foreign

---

1. ICMF, Bombay, Report of the Survey of Indian Cotton Mill Industry, p. 33.

exchange, imports of foreign cotton has to be restricted, causing a chronic shortage of it. During 1964-66, a combination of poor monsoons and an acute foreign exchange crisis resulted in the curtailment of imports and consequently in shortage of cotton. This has had the effect of pushing cotton prices beyond ceilings (removed from 1.9.1967) fixed by the Government for various varieties and consequently increasing the prices of textiles. The situation with regard to cotton became so serious that in December 1966 the government of India by an Ordinance, ordered the mills to close down compulsorily for one day in every week in order to conserve cotton stocks. The Ordinance has been lifted as from September, 1967, because of better crop prospects. In accordance with the present position, raw cotton will have to be bought from abroad for many years to come and the best that can be done is to progressively reduce the quantum of imports through an improvement in quantity as well as quality within the country.

The desired increase in production of quality cotton is not possible so long as Indian farmer is not in a position to improve the yield per acre. At present the yield per acre in India is very low as compared to that in other cotton growing countries of the world, which is evident from the Table- XLIII.

The yield in India is the lowest at 117 lbs. per acre, whereas the world average is 309 lbs., U.S.S.R. which tops the list with 736 lbs. is being followed by Mexico, U.A.R., Syria and U.S.A. with 618, 576, 501 and 493 lbs. per acre respectively. Even

TABLE - XLIII

COTTON YIELD PER ACRE IN SELECTED COUNTRIES

(in lbs.)

COUNTRY	Average yield of cotton per acre for the years 1965-66 to 1969-70
U.S.S.R.	736
Mexico	618
U.A.R.	576
Syria	501
U.S.A.	493
Pakistan	254
Brazil	223
India	117
WORLD AVERAGE	309

SOURCE: Hand-Book of Statistics on Cotton Textile Industry, Cotton Mills' Federation, Bombay, 1st July, 1971.

Pakistan has an average yield of 254 lbs. i.e. more than double the India yield.

The main reason for such a low yield, besides adverse moisture conditions in the soil is the absence of scientific and modern methods of cultivation, the use of high yielding varieties and the lack of adequate irrigational facilities and fertiliser supply. Moreover, major part of the land under cotton in India is unirrigated unlike in countries such as the U.A.R. and the

U.S.S.R., where cotton is grown as an irrigated crop. Of the total area, only 16 per cent (1.28 million hectares) is irrigated and the remaining rain fed.[1] The incidence of pests and diseases and an excess or shortage of rainfall also contribute to low yields. Severe shedding of bolls is a common feature. It is estimated that about 70 per cent of the potential bolls are lost due to shedding.[2]

As a result of an overall shortage of cotton in 1966 the prices of Indian cotton moved up by about Rs. 300 to Rs. 500 per bale over and above the ceiling prices. The prices of foreign cotton also shot up very high on account of devaluation alone. Since then the cost inflation with increasing intensity has become a regular feature. In 1968, the average price of cotton was higher by about 12 per cent over 1967 prices. The fall in production in the year 1969 to about 58.50 lakh bales from about 60 lakh bales in previous season and the delay in arranging imports of foreign cotton led to a sharp rise in cotton prices. The index of prices indicates that as compared to 1966 the prices of raw cotton in 1969 have gone up by about 50 per cent and if compared with 1961 figures the rise is by about 75 per cent. Following table indicates the upward trend of price movement of raw cotton and yarn.

---

1. Gupta, R.R. Crisis in the Indian Cotton Textile Mill Industry, p. 21.

2. Ibid, p. 24

TABLE - XLIV

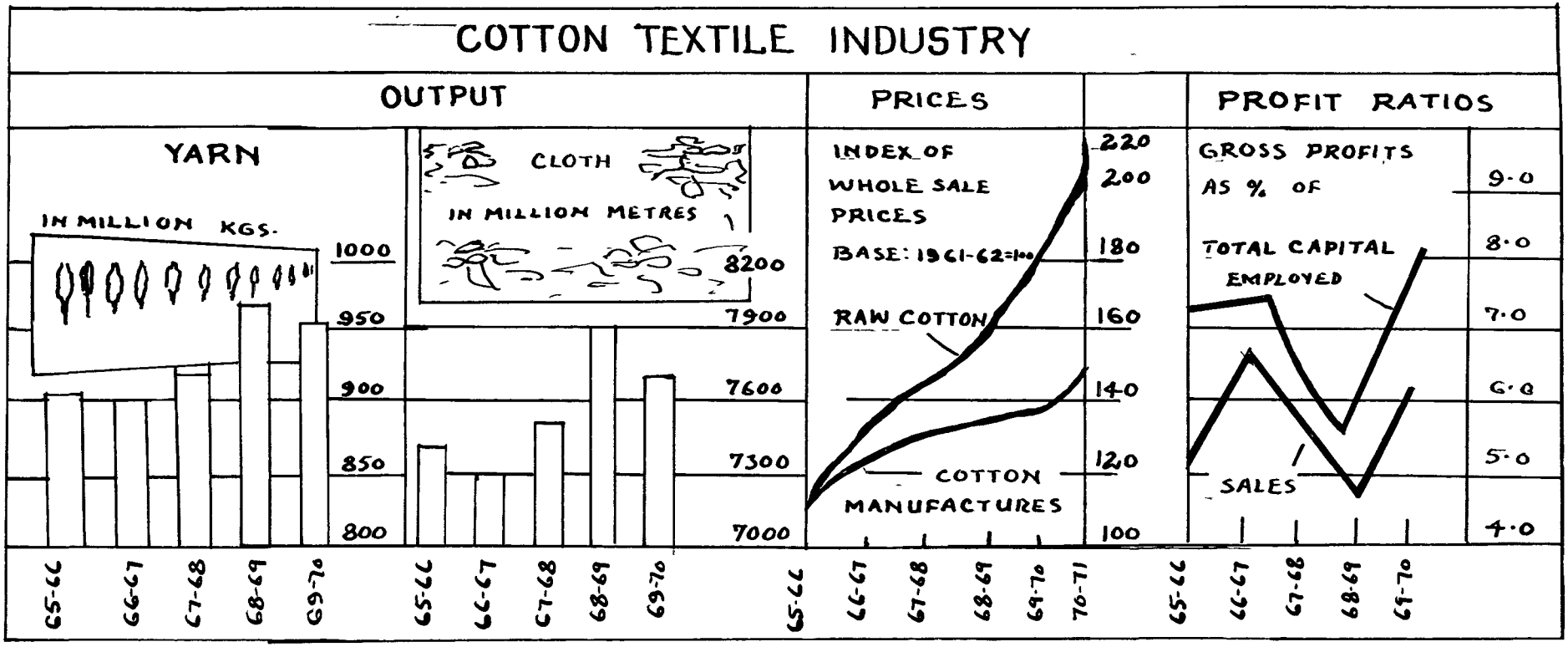
INDEX NUMBER OF WHOLESALE PRICES OF RAW COTTON AND YARN
1961-62 = 100

YEAR	RAW COTTON	YARN
1962-63	104	107
1964-65	117	109
1966-67	127	123
1968-69	155	130
December 1968	155	131
July 1969	172	141
December 1969	164	146

SOURCE: *Reserve Bank of India Bulletin*, Jan. 1970, p. 161.

The table indicates that rising trend of prices has become a regular feature and there is not a single exception of lower prices over its previous level even by way of temporary relief. On the other hand there is a significant intensity in prices during 1968-69 and July 1969 when prices increased by about 22 and 11 per cent respectively over their previous levels. Position of yarn prices do not present a different picture. Here too in December 1969, the increase in prices is by 46 per cent over 1961-62 prices.

There is thus an acute shortage of raw cotton of both superior and inferior varieties which in turn inflates further scarcity and


COTTON TEXTILE INDUSTRY
OUTPUT
YARN
IN MILLION KGS.
1000
950
900
850
800
CLOTH
IN MILLION METRES
8200
7900
7600
7300
7000
65-66
66-67
67-68
68-69
69-70
65-66
66-67
67-68
68-69
69-70
PRICES
INDEX OF WHOLE SALE PRICES
BASE: 1961-62=100
RAW COTTON
COTTON MANUFACTURES
220
200
180
160
140
120
100
65-66
66-67
67-68
68-69
69-70
70-71
PROFIT RATIOS
GROSS PROFITS AS % OF
TOTAL CAPITAL EMPLOYED
SALES
9·0
8·0
7·0
6·0
5·0
4·0
65-66
66-67
67-68
68-69
69-70

and consequent rise in cotton prices. The situation has worsened to such an extent that if no remedial measures are taken with immediate effect, the very existence of the industry will be threatened. The competitive advantage that Indian textiles so far enjoyed in foreign markets on account of the availability of low priced domestic cotton has also been eroded. Indian cotton was for a long time the cheapest in the world. It is at present 20 to 30 per cent dearer than comparable foreign varieties after making allowance for their high spinning value.[1]

The real solution to this problem lies in increasing the output of cotton in the country and making it available to the mills at reasonable prices. The textile industry as well as the governments, both central and States, should arrange larger and adequate imports of fertilisers, pesticides and quality seeds. More irrigation facilities through minor, medium and major irrigation works should be provided to cotton growers, so that the yield per acre can be substantially increased. Further, extensive facilities of tractorisation and mechanisation of cotton cultivation with improvement of soil under cotton have to be vigorously undertaken. Their implementation will rehabilitate the industry on sound lines and the present acreage of about 20 million under cotton is likely to produce 10 million bales of cotton annually in place of present widely fluctuating annual production within range of 5 to 6 million bales.

---

1. Mill Owners' Association, Bombay. Facts About the Cotton Mill Industry of India, op. cit. p.11.

The need for improvement in quality and yield of cotton has now been realised in India. The Indian Central Cotton Committee has contributed significantly by its research in the field of cotton cultivation and up gradation of quality. Pilot projects have been undertaken in some cotton growing areas of the State under the aegis of Indian Cotton Mills' Federation. The farmers have been supplied with improved inputs and have been educated to use modern methods of cultivation. Moreover, in accordance with the announcement in September 1969, the Government of India has taken over the import trade in cotton with a view to minimise the difficulties of the mills which they face in getting proper supply of imported raw cotton.

The Government is also taking measures to increase the yield of raw cotton with a view to reduce the cost of production. For instance, on August 29,1971, the Central Government approved a three-year programme costing Rs. 14.74 crores to end the country's long dependence on import of cotton bales.[1] The plan will bring a return of an aggregate value of Rs. 156 crores between 1971 and 1974. The increased yield is expected to be about 3,60,000 bales in 1971-72; 4,20,000 bales in 1972-73 and 4,80,000 bales in 1973-74.

Each year India's textile mills turn out about 5.8 million bales of cotton into yarn and fabrics, though indigenous production of raw cotton approximates 5 to 5.5 million bales. This leaves a

---

1. Economic Times, September 30,1971.

gap of 7,00,000 to 8,00,000 bales of cotton between availability and need, and the country has to import it by paying about Rs. 85 crores each year in foreign exchange.

The main objective of the new plan is to end the present stagnation in cotton production by adopting promotional measure suited to both irrigated and rain-fed areas and make the country self-sufficient in cotton. The three-year programme would popularise use of pure seed and new varieties, application of recommended doses of fertilisers, and adoption of plant protection measures.

Under the programme six districts have been selected in the irrigated zone. Ferozepur and Bhatinda in Punjab; Hissar in Haryana; Ganganagar in Rajasthan; Baroda in Gujrat and Coimbatore in Tamil Nadu. In the current year (1971-72) it is proposed to cover a total of 4 lakh hectares on cotton cultivated area in these districts. During 1972-73 an additional area of 80,000 hectares will be covered. Following by another 80,000 hectares in 1973-74. Demonstrations of farm holdings in these areas show that cotton production can be stepped up by 40 to 100 per cent.

In non-irrigated areas, it is proposed to initiate a programme on a pilot basis in approximately 1,40,000 hectares spread over seven districts in different States. These are Kurnool in Andhra Pradesh; Surendranagar in Gujrat; Khargone in Madhya Pradesh; Akola and Yeotmal in Maharashtra; Dharwar in Mysore and Tirunelveli in Tamil Nadu.

In each selected district, 2,000 hectares will be covered under the "intensive programme" and another 18,000 hectares under the "expanded programme". The programme recommends reimbursement of cost of inputs up to a prescribed limit per hectare.

However, the success of these schemes and programmes depend upon the seriousness with which these measures are continuously implemented. As far as the present situation is concerned the problematic situation is not squarely met.

W A G E S:

Like raw material, wages have also shown continuous upward trend. In the cost structure, wages are the second major item of production, accounting for about 28 per cent of the total cost in case of cloth and 20 per cent in case of yarn. There has been no relief in the upward trend of this element of cost. Let me, therefore, discuss the wage structure to suggest measures of reform in this direction.

The existing wage structure in the cotton textile industry has been evolved after the Second World War. Prior to 1940, wages were fixed by employers, in some cases, after negotiation with trade Unions. In a few instance, courts of enquiry were appointed (after the Congress Government took office in various States) which were responsible for recommending wages for various grades of operatives. The profits after 1940 increased due to World War II and the cost of living also rose very steeply. There was a demand

for increased wages and a dearness allowance was introduced by the employers. Ahmedabad was the first centre in India where dearness allowance was linked with the cost of living index in 1939.

With the coming of democratic governments into power in the various States in 1946, and the dissatisfaction of labour with the then existing wage rates, Tribunals were appointed to enquire into wages and working conditions in order to make suitable recommendations. These Tribunals took into account such factors as minimum dietary requirement, the size of the family, the condition of the work, etc. in arriving at the quantum of basic wages, as they ought to have been in 1939. The year 1939 was taken as the base year because it was at a time when prices were stable before they began to rise as a result of war. The Tribunals then fixed the dearness allowance on the basis of living index in that centre based on the 1939 figures. There was, however, considerable variation in the dearness allowance as well as the wages, among the various States, and to some extent, it still exists. The causes of these variations deserve a summary discussion.

The inter-State or inter-industry wage differentials may be the result of supply position, influence from the side of demand as reflected in per capita value productivity or the influence of cost of living.

Wage rates prevailing in any region are influenced by factors governing the demand for and supply of labour. Assuming that the

demand conditions are given and that perfect mobility of labour does not exist, generally, the wage level is inversely related to the labour supply.[1] In other words, wages are higher in those regions where surplus labour force as a percentage of total working population is lower than in those regions where it is higher. But here it must be kept in mind that in some cases a comparatively small labour surplus or shortage may not result in high industrial wages because plentiful supply of cheap labour is available in the adjoining states. The influx of cheap labour into the deficit area may result in depressing industrial wages in that State. In some other cases the level of wages may be quite high in spite of the fact that State shows a large quantum of surplus labour force. This may be due to the fact that that State is actually deficit for that particular type of labour. Anyhow, perhaps one would be justified in drawing the conclusion that the existence of surplus labour has a regressive effect on the level of wages. But this neglects almost entirely the influence of demand which, in some sense, must be dependent on considerations of productivity.

In the light of information derived from the study on the 'Distribution of National Income by States' undertaken by the National Council of Applied Economic Research in 1965, it can be concluded that the level of per capita value added in the different States comes very near to explaining the phenomenon of inter-State differentials. This means that the basic influence on wages is the

---

1. Lloyde G. Reynolds- The Evolution of Wage Structure, 1956, p.59.

level of economic development in different States and a movement towards narrowing inter-State differentials will have to await greater regional balance.

Thus, the existence of these inter-State or inter-industry wage differentials may be the result of supply position or due to the influence from the side of demand as reflected in per capita value productivity. Factors like level of economic development, variations in the cost of living index as well as in the degree of neutralisation of the increased cost, are also not to be ignored totally.

With the constitution of the first Wage Board in the year 1957, an attempt was made to fix emoluments for textile workers on a national scale and to bring down the disparities between different regions. With similar objects, the Second Wage Board was constituted at the end of the year 1964 and it submitted its report in 1968. As a result of the awards of these two wage Boards, Dearness allowance has been increased to ensure greater neutralisation of the cost of living apart from flat increases.

The foregoing discussion reveals that after the Second World War, due to rising cost of living, improving industrial earnings, and increasing labour pressure, the wages began to witness an upward trend, to which, the sympathetic attitude of the popular government and the organised efforts of the trade unions played the role of contributory factors. In theory as well as in practice, the government and the Trade Unions supported the cause of working

class. Whereas the Government, through enactments, tribunals and Wage Boards, considerably improved the labour conditions and successfully minimised the disparities between different regions, the Trade Unions, through collective bargaining, helped the textile workers in the materialisation of their genuine demands.

Thus the Trade Union movement of India made the labour class conscious of their rights but it failed to make them realise their duties and responsibilities. Such a situation is due to the fact that in India the movement developed as an extension of the political movement; and hence, the trade union organisations are dominated by the polititical organisations. The trade union leaders are primarily the members of the political parties and only secondarily trade unionists.

Organisation of trade unions by political parties has also got important repercussions on the labour-management relationship. The union leaders are bound to give more emphasis to the basic changes in the political and economic framework rather than solving the immediate problems of members on a constructive line. On account of these reasons, the unions in the industry have not so far shown much interest in positive programmes of constructive cooperation like joint consultations, participation in management or methods of increasing productivity of labour. Lack of productivity consciousness on the part of labour and go slow tactics are also the reflection of the same situation. Moreover,

propagation of contempt and hatred against the capitalists has made the workers non-cooperative and suspicious. Much of the aggressiveness and violence of the workers is also due to union propaganda in the opinion of the Industrial Enquiry Committee(1948).

If the movement is to become 'of' the workers rather than 'for' the workers, the leadership also shall have to be developed from the rank and file of workers. Due to low level of education an ordinary industrial worker fails to understand the purpose, functions and operations of the trade unions. On account of this, the workers have to depend upon the leadership of outsiders. Many trade union officials today are individuals who are not now, nor have ever been, workers in the industry or occupation which their trade union organises. Many of these so-called 'outsiders' have made outstanding contributions to the trade union movement, although unfortunately some have not hesitated to use their positions for personal or other ends as distinct from trade union purposes.[1]

Participation of the members in the trade union affairs is particularly necessary in view of the new role which the unions have to play under the changing pattern of the society in the planned economy. It is possible to foresee and indeed to see already today a shifting emphasis in the trade union movement away from sole concern with conditions of labour in a narrow sense and towards a wider interest in problems of production and efficiency on which,

---

1. Government of India: Report on Workers' Education, p. 11

in the ultimate, conditions of labour depend. The essential test of trade unionism may well be its ability, in achieving its primary aims- and once these aims are achieved, its ability to turn itself to a new, less spectacular, less aggressive, but even more constructive role, and at the same time retain its membership and its discipline.[1] Unless the workers can grasp the functions, purposes and operations of trade unions, it will be difficult to sustain the loyalty of workers with the changing role of the unions in the planned economy of India.

It is in the interest of both workers and employers to work in cooperation and perform their respective duties with utmost sincerity. In other words, the worker through his efficiency and hard labour must try to increase the production of quality goods to the maximum possible extent. On the other hand, the employer must also feel himself duty bound to provide for the worker not only the bare necessaries of life but also other necessary facilities, essential to give him sufficient strength and will to work.

The above discussion indicates that the Indian textile labour of today is in a better position to achieve the maximum possible rights by way of collective bargaining through the labour unions. But side by side it also points out a very alarming situation, viz. the trade unions, have made the workers realise their rights but have failed to inculcate in them their duties and responsibilities. They

---

1. Kirkaldy, H.S: op. cit. p. 37.

are also injecting in them the seeds of hatred against the employer. This trend, if continued, is bound to effect adversely the paying capacity of the industry as well as the earning possibility of the labour.

The discussion further reveals that change in the attitude of the worker is the only way to achieve some degree of efficiency. The employer should not only pay need-based wages but also make payments according to efficiency. In other words wages should be wedded to efficiency for the rehabilitation of the industry. If it is not done the cost index will continue to show rising trend and the wage cost will also increase proportionately and sometimes even more than that. This view is further supported by the following tables indicating consumers price index and the average monthly dearness allowance paid to workers.

TABLE - XLV

AVERAGE MONTHLY D.A. IN RUPEES

	1963	1966	1969	% increase in 1969 over 1963
Ahmedabad	85.65	138.80	175.11	104%
Bombay	96.08	148.62	186.83	95%

SOURCE: Compiled from the relevant issues of the Indian Labour Journal.

CONSUMER PRICE INDEX FOR INDUSTRIAL WORKERS
1960 = 100

	1963	1966	1969	% increase in 1969 over 1963
Ahmedabad	105	130	169	61%
Bombay	106	130	176	66%

SOURCE: Reserve Bank of India Bulletin, Jan. 1970,p. 139

The above tables indicate a continuous rising trend in both consumer prices and the average monthly wages. In Ahmedabad and Bombay the consumer prices were 105 and 106 in 1963 and increased to 169 and 176 in 1969 showing an increase of 61 per cent and 66 per cent respectively. The average monthly D.A. paid at the same two places during that period increased from 85.65 and 96.08 to 175.11 and 186.83 showing an increase of 104 per cent and 95 per cent respectively. This not only shows a positive corelation in the increasing trend but also indicates that in comparison to consumer prices the rising trend of average monthly D.A. is more intense.

Wages, both basic and dearness allowance, have been going up constantly under government orders and by virtue of awards of industrial tribunals and labour courts coming out from time to time. The wage bill of the industry further went up with the enforcement of various labour laws entailing additional financial obligations in the shape of employees' provident fund, state insurance schemes, leave with

wages and retrenchment compensation, which form a sizeable percentage of the total wage bill. The award of paid holidays, gratuity, etc. has further burdened the industry with extra cost. As a result of this, the wage bill in the cotton textile industry is mounting new heights every month. While the percentage of salaries and wages in the cost structure for all industries is only 17.40, it comes to 26.5 per cent in the case of cotton textiles. Similarly whereas for all industries the share of the wages in net output is 55.71 per cent, it is 69 per cent for the cotton textiles.[1]

Another factor which is responsible for the rising production cost is the aging labour force employed in the cotton textile industry and a decline in the women labour. For example, the number of women employed in the Indian textile industry declined from 1,03,800 in 1952 to 79,900 in 1956, a reduction of 10.2 per cent to 7.6 per cent of the total employment strength.[2] Similarly, a higher labour turnover and absenteeism in the Indian Textile industry have further added to the burden of rising production cost.[3]

The rise in wage cost due to phenomenal increase in dearness allowance paid to workers is also borne out by the following figures, in Table -XLVI.

---

1. Replies submitted by the Indian Cotton Mills' Federation, Bombay, to the questionnaire issued by the Textile Enquiry Committee, 1958,p.3
2. Government of India: Women Employment 1901-1956. Planning Commission, August 1958.
3. Report of the Textile Committee- ILO Seventh Session Geneva 1963, pp. 44 to 46.

TABLE - XLVI

MINIMUM WAGES AND DEARNESS ALLOWANCE IN TEXTILE MILLS

(in Rs.)

	BOMBAY	AHMEDABAD	MADRAS	KANPUR	DELHI	W. BENGAL
Minimum basic wage	40.00	38.00	40.00	38.00	40.00	36.17
1962	95.76	88.52	79.09	65.43	74.76	43.08
1963	96.08	85.15	82.05	66.69	75.60	48.28
1964	114.79	106.97	96.68	85.38	86.60	53.13
1965	127.08	125.90	115.14	101.92	97.23	60.81
1966	148.62	138.80	125.49	106.76	114.16	70.03
1967	167.56	172.77	137.34	135.30	135.50	82.01
1968	179.54	172.85	139.99	136.92	143.54	95.93

SOURCE: Compiled from the relevant issues of Indian Labour Journal.

There is a rising trend in wages in all the centres mainly on account of regular increase in dearness allowance. Wages vary from centre to centre but it is easy enough to compare the minimum wages of 1962 and 1968 and get an approximate idea of the rise in wage costs. The minimum wage of a textile worker in Bombay in 1962 was Rs. 40 basic and Rs. 95-76 dearness allowance, making a total of Rs. 135.76. In 1968, the same worker got Rs. 40 basic and Rs. 179.54 as dearness allowance, making a total of Rs. 219.54 and showing a rise of about 62 per cent over 1962. The corresponding figures for Ahmedabad are Rs. 126.52 in 1962 and Rs. 210.85 in 1968, a rise of

67 per cent; in Madras from Rs. 119.09 to Rs. 179.99, a rise of 51 per cent; in Kanpur Rs. 103.43 to Rs. 174.92 a rise of 69 per cent; in Delhi Rs. 114.76 to Rs. 183.54 a rise of 60 per cent, and in West Bengal from Rs. 79.25 to Rs. 132.10, a rise of 67 per cent. It will thus be seen that wages have risen at the minimum level by more than 60 per cent in most of the centres. Since wages constitute about 25 to 30 per cent of the total cost, a 60 per cent rise in wage cost would mean about 15 to 17 per cent rise in the total cost.

The situation becomes more serious when we consider that there is no check on the rising trend of this cost element. Since 1968 there has been a further rise in wages apart from other cost items and under present economic and political circumstances, it is expected that they will further move upwards. The average dearness allowance increase paid to workers for a standard month of 26 working days is shown in Table- XLVII below.

TABLE - XLVII

PERCENTAGE RISE IN DEARNESS ALLOWANCE

	Increase in 1969 over 1968	Increase in 1970 over 1969
Bombay	4	5
Ahmedabad	1	4
Indore	5	7
Tamil Nadu	3	14
Delhi	2	8
West Bengal	11	13
Kanpur	1	8

SOURCE: The Economic Times, September 15,1971.

The table indicates that there has been a rise in Dearness Allowance in all the seven centres. An increase of 11 per cent and 13 per cent in 1969 and 1970 respectively in West Bengal is the highest followed in order of percentage increase by Tamil Nadu, Indore, Delhi, Bombay, Kanpur and Ahmedabad.

In other centres not included in the table the rising trend is not at all different. Apart from this trend the industry has been further obliged to implement the recommendations of the Second Wage Board of 1964-68 involving a burden of Rs. 50 crores in the five years beginning from 1969, or an average annual expenditure of Rs. 10 crores.[1] What is more, in some states, notably Rajasthan and West Bengal, the industry was compelled to pay more than the Wage Board recommendations even though one of the conditions was that the mills accepting them should not be asked to bear additional burdens during the five year period.

Labours' desire for higher emoluments to lead a more healthy and contended life is most legitimate. Since the last war, big steps forward have been taken to provide many important benefits for the industrial population with the object of promoting its economic and social well-being. Schemes like Employees' Provident Fund and Health Insurance are two of the outstanding instances in point.

Inevitably such far-reaching social and ameliorative measures

---

1. Second Central Wage Board Report 1968.

are expensive, however, indispensable they might be. The contribution to the inflation of the wage bill which is bound to weigh heavily on production costs unless there is a proportionate increase in the productivity.

The analysis clearly indicates a sharp rising trend in the production cost. The prices of raw cotton have increased by about 75 per cent and the wages have gone up by more than 60 per cent over 1961-62 level. The position of other elements of cost is not much different. Since 1961-62 there has been a general increase in the cost of stores as well as other materials and the electricity charges have also moved upward due to imposition of surcharge. Moreover, coal and fuel prices have gone up by more than 50 per cent during the same period.

In view of the above facts, it can be concluded that there has been a substantial rise in production costs. This is supported by the following Table- XLVIII.

TABLE - XLVIII

TOTAL EXPENDITURE INCURRED BY THE COTTON TEXTILE INDUSTRY FROM 1960-61 to 1965-66

ITEM	1960-61	1962-63	1964-65	1965-66
1. Raw Materials	26,950	30,891 (14.6)	36,813 (36.6)	39,587 (46.9)
2. Other Manufacturing Expenses	7,935	9,912 (24.9)	12,240 (54.3)	13,353 (68.3)
3. Wage Bill	13,871	15,697 (13.2)	18,909 (36.3)	20,174 (45.5)
4. Other Expenses	2,634	3,463 (31.5)	3,776 (43.4)	4,314 (63.8)
5. Excise Duty & Cess	4,041	5,959 (47.5)	7,621 (88.6)	7,411 (83.4)
	55,431	65,922 (18.1)	79,359 (43.7)	84,839 (53.2)

SOURCE: Reserve Bank of India Bulletin, December,1967,p. 1568
(NOTE: figures in brackets indicate percentage increase over 1960-61)

The total expenditure indicated a consistent upward trend during the period under review consequent on the rise in expenditure in all the items. In 1965-66, the increase in the total expenditure was about 54 per cent over 1960-61. The rate of increase in relation to that of the various items in 1965-66 over 1960-61 was the highest in excise duty and cess, closely followed by other manufacturing expenses, other expenses, raw materials and wages. The rise in cost structure of products is a country-wide phenomenon. It needs collective efforts of the government, the labour and the industries concerned. It can not be denied that the need of the hour is to curb inflation and to increase productivity at all levels.

SECTION - II

THE SALES POTENTIAL OF COTTON TEXTILE INDUSTRY

The foregoing Section reveals a rising trend in the cost of production of textile goods. For a further understanding of the problem, the revenue receipts through sales are also analysed in this Section. Realisation proceeds largely depend upon the home consumption

and conditions prevailing in the world market.

HOME CONSUMPTION:

In the home consumption, the green revolution is a redeeming feature. It has brought some relief to the common man who takes slightly better food than before, but in the matter of clothing he is definitely ill-clothed. If the millowners' estimates are anything to go by, the chances of any reversal of the present position in the near future appear to be bleak.

This is a poor state of affairs because since independence the government has carefully nurtured the growth of the textile industry. The common man has been protected from the indiscriminate rise in prices. Until two years ago, the prices of 40 per cent of the cloth produced by the mills were rigidly controlled; even now the mills must sell dhoties, sarees and other wearing apparel of 'coarse' varieties, accounting for about a quarter of their output, at fixed rates.

The per capita consumption of cotton cloth, which is all that the vast majority of the population can afford, declined from 14.71 metres in 1955- and a peak of 15.10 metres in 1964- to 13.5 metres last year.[1] Accordingly, the standard of consumption per head works out to two 'sarees' and two 'blouses' to a woman, one 'dhoti' and two shirts to a man and about three 'pyjamas' and three shirts to a male

---

1. Hand-Book of Statistics on Cotton Textile Industry, published by the Indian Cotton Mills' Federation, Bombay, February 1970, p. 19.

child. Surely, this meagre standard of clothing of the people whose country is a leading producer of textiles can not be regarded as satisfactory.[1]

A comparison of these figures with the level of per capita consumption in some of the civilised countries of the world would be instructive. The off-take of cotton cloth per head is 64 square yards in the U.S.A., 35 yards in U.K., 22 yards in Japan, 19 yards in U.A.R. and 17 yards in Iraq.[2]

The reason for this anomalous position in India is the high prices of cloth coupled with the low purchasing power of the community. The distorted pattern of the family budget accounts for the absorption of much of the consumer's income by food and housing, leaving a relatively small balance which is inadequate to meet his clothing requirements. This depressing position can not be expected to witness an otherwise trend as long as the prices are not scaled down, through higher productivity, enabling the consumer to buy more cloth out of his present income.

It is the consumers ability to buy that determines the per capita off-take of cloth. Since the capacity to buy has been seriously impaired due to ever-increasing inflationary conditions in the country, its repercussions have also been felt by the textile industry. The

---

1. I.C.M.F. Bombay, Survey of the Indian Cotton Mills Industry, 1960, p. 42.
2. National Productivity Council: Cotton Textile Industry in U.S.A., Japan, W.Germany, France, Switzerland, etc. 1960, p. 7.

consumers price index reveals that during 1962-69 the wholesale prices of rice; wheat; milk and ghee; edible oils and sugar and gur have gone up by 100, 124, 85, 141 and 35 per cent respectively.[1] In view of the phenomenal rise in food prices, the consumer has been obliged to curtail his expenditure on items of family budget other than food and as a result, his ability to buy his clothing requirements suffered a serious set back as is evident from the following Table- XLIX.

TABLE - XLIX

PER CAPITA OFF-TAKE OF CLOTH

(in metres)

YEAR	MILL CLOTH	DECENTRALISED SECTOR	TOTAL
1961	9.44	5.30	14.74
1962	9.04	5.26	14.30
1963	8.48	6.12	14.60
1964	8.73	6.37	15.10
1965	8.38	6.19	14.57
1966	7.63	6.75	13.78
1967	7.21	6.16	13.37
1968	7.87	6.25	14.12
1969	7.20	6.30	13.50
1970	7.11	6.41	13.52

SOURCE: Indian Textile Bulletin, issued by the office of the Textile Commissioner, Bombay, Jan. 1971, p.15 and the Economic Times, September 15,1971.

1. Reserve Bank of India Bulletin, January 1970, pp. 160-61

From the above table it will be observed that in 1961 the per capita off-take of cloth produced by the decentralised sector was 5.30 metres which increased to 6.41 metres in 1970, whereas the off-take of mill cloth came down from 9.44 metres to 7.11 metres during the same period. The overall off-take of cloth also declined from 14.74 metres in 1961 to 13.52 metres in 1970. Further, there has been a continuous increase in the off-take of decentralised sector while in case of mill sector the continuity is in the downward trend.

It is not only the present condition of the industry which requires consideration, the future prospects must also be thoroughly planned. It has been pointed out earlier that the per capita availability of cotton cloth which was 15.10 metres in 1964 gradually came down to 13.50 metres in 1969. It is regrettable that while the successive plans of economic development were expected to result in a progressively higher standard of living, actually, became a cause of deterioration for the clothing standard. The economic development of the country, as it has been progressing, has given rise to conditions in which the per capita income in current prices, year after year, lags behind the rise in the cost of living. And under this situation the common man tends to reduce his outlays on textiles. The inflationary conditions are continuing to play havoc with the common man's budget and the better crops since 1967-68 which were expected to relieve the strain on the common man have failed to do so.

The prospects of securing economic aid from the developed countries have also dimmed and the government and the Planning Commission

have started thinking in terms of mobilising internal resources on a much larger scale than hithertofore, with a view to reducing or eliminating dependence on external aid. The prospects of the inflationary spiral being checked do not therefore appear to be very rosy, and one must proceed on the assumption that the consumer will continue to reduce his outlays on textiles.

It is now abundantly clear that in the home market the off-take of the cotton cloth, specially of mill sector, is going down day by day mainly due to ever increasing inflationary conditions. Moreover, in the near future there seems to be no possibility of any check on these two trends. But here it must also be realised that the inflationary conditions coupled with the reduction in purchasing power of the poor masses can not be termed as the only reasons for reduced sales of the cotton piece goods. The stagnation in cotton textile off-take is also due to the rapid growth of non-cellulosic fabrics. The increasing availability of these man-made fibre-fabrics has started cutting into the consumption of cotton cloth.

Since the days of the invention of nylon 66, the first truly synthetic fibre by Carothers in 1935, the world has travelled far. The output of synthetic (man-made) fabrics has shot up from a mere 40 crore lb. during early 1930s to 1,600 crore lbs. at present- a make-up by 40 times. The total production of all kinds of fibres- natural (like cotton, silk, wool, etc.) and man-made has trebled from 1.500 crores lbs. in the early 1930s to 4,500 crores lb. at

present and the share of man-made fibres in the total world production has shot up from 2.66 per cent to 35.55 per cent. Some put the share at over 38 per cent.[1]

The share is bound to rise further, and indeed in the near future, synthetic fibres will overtake the natural fibres in view of their 7.5 per cent growth rate in the past decade and a half, as against only about 4.2 per cent growth rate of the natural fibres during the same period.[2]

In the past four years alone, output of man-made fibres has risen by 50 per cent in the three largest producer nations- the U.S.A., Japan, West Germany- by 46 per cent in Italy, and by 41 per cent in U.K. By 1975, man-made fibres, it is surmised, will account for about two-thirds of the total fibre output in the U.S.A.[3]

The demand for man-made fibres is likely to increase further. There are reasons for this estimate. The world's population explosion, the continued inroads into arable land, the fast pace of fibre consumption, the lowering of fibre values owing to keen competition, and increasing preference for man-made fibres, are the undisputable facts in support of the views. Despite the arguments of the advocates of natural fibres to the contrary, it is reasonable to assume that man-made fibres, in view of their numerous and ever-growing qualities will prevail over the former.

---

1. Kothari. Economic Guide and Investors Hand-Book of India, pp.1785-86.
2. Indian Textile Bulletin, September 1968, p. 137
3. Kothari, Economic Guide. op.cit. p. 1787.

Artificial fibre lends itself to a variety of colours and designs. Besides, its main advantage is crease resistance which appears to be the chief requirement for the present day consumer. Moreover, what are known as the real 'synthetics' have very low moisture absorption, good crease recovery and also possess high abraison resistance which guarantee durability. Hence, the trend is to combine the two varieties to yield a mixed fabrics which would give the advantage of both cotton and man-made fibre. The world trend for change over to the combination of polyester-viscose fabrics is also due to its softness and rich worsted appearance.

India, though far behind in the production of artificial fibres, has also made good progress. The first mill commenced production in 1950 with the establishment of a viscose plant. Now, besides staple fibre, this country produces even polyester fibre. India has already three units for this and another is in the offing. Further, blending of fabrics has also become popular in the last decade or so and some of the mills in the country may be said to have even almost perfected the processing techniques.[1]

The early expectations that for textile industry there was no immediate danger of competition from man-made fibre-fabrics has also been belied as can be noted from the Table - L.

---

1. Kothari. Economic Guide. op.cit. p. 1784.

TABLE - 1.

PRODUCTION OF MAN-MADE FIBRE FABRICS

(million metres)

YEAR	Decentralised Sector	Mills	TOTAL
1958	396.5	4.3	400.8
1959	492.0	3.3	495.3
1961	570.1	2.1	572.2
1963	647.9	3.2	651.1
1965	866.5	3.8	870.3
1967	876.0	5.6	881.6
1968	988.8	3.6	992.4
1969	960.1	2.1	962.2

SOURCE: Indian Textile Bulletin. Vol. XIV Nos. 2&3, Table No.2, and Vol. XV No. 6, Tables No.41-42.

The above table discloses that the production of man-made fibre fabrics which was only 400.8 million metres in 1958 has progressively gone up to 962.2 million metres in 1969 showing an increase by 140.7 per cent. Another notable feature is that almost entire production of such fabrics is emanating from the decentralised sector. Moreover, the insignificant mill production is showing a downward trend as is evident from the fact that in 1958 the production was 4.3 million metres which came down to 2.1 million metres in 1969 showing a decrease by 51.2 per cent whereas, during the same period production of decentralised sector increased from 395.5 million metres in 1958

to 960.1 in 1969 showing an increase by 142.1 per cent. Today the position is that the total production of cotton cloth and man-made fibre fabrics in the decentralised sector is almost equal to the production of cotton cloth in the organised mill sector, while in 1958, it was a little over 50 per cent of the mill production.

The market research undertaken by the textile committee set up under the Textile Committee Act has rightly established that man-made fibre-fabrics have started cutting into the consumption of cotton cloth. Moreover, the petro-chemical complexes which are scheduled to expand in the coming years will make available larger and larger quantities of polyester fibre, with still deeper cuts into the consumption of cotton cloth. The available data leads to the conclusion that the per capita consumption of cotton cloth would not go beyond 14 metres. Even this figure, is subject to a downward adjustment depending upon the expansion expected in the capacity for the production of man-made fibres and fabrics. As it is, out of 17.2 million spindles installed in the country, only about 14 million spindles are active. In spite of the expected rise in population to 606 million by 1973-74, the industry does not envisage any expansion in spindleage and only a marginal expansion in loomage.

Here it is also to be realised that man-made fibre and fabrics industry of India is also not free from problems. India is far behind the advanced nations in respect of the development of man-made fibre industry. At present the total installed capacity of non-cellulosic

fibres like nylong, polyester, etc. in India is only 0.3 per cent of the world capacity. The rated capacity among the Indian plants range from 2-ton a day to 12-ton only, as against a high of about 200-ton a day in Japan and an average of 40-50 ton a day in other foreign countries.[1]

The Indian polyester fibre industry has to contend with the difficulty of costs of manufacture. The cif import cost of DMT, the major raw material, comes to Rs. 3,280 a ton, and the landed cost inclusive of the 60 per cent customs duty to Rs. 5,300 a ton. The DMT, to a U.K. producer, costs only Rs. 2,600 a ton. Further, to the ex-factory price of Rs. 20.58 a kg. for the polyester fibre produced in India, are added Rs. 2 as excise on polymer, Rs. 33.33 as excise on fibre, Rs. 21 as excise on yarn, Rs. 20 as excise on fabrics. To these are added, of course, the weaving, processing, dyeing charges and the units profits. Thus, fibre cost is only about a fifth of the price paid by the user of a polyester fabrics. It is patent that with such a heavy burden the polyester fibre industry in the country can grow only at a very slow pace.[2]

As regards the long-term outlook, while man-made fibre fabrics are bound to gain further ground because of their wash and wear qualities, they can not supplant cotton fabrics altogether, especially in a prodominently tropical country like India. With population rising and with cotton fabrics requiring a relatively

---

1. I.C.M.F. Bombay. Report of the Survey of the Indian Cotton Mills Industry, pp. 26-28
2. Ibid.

smaller initial outlay than man-made fibre fabrics, the secular trend in regard to the demand for cotton textiles should be upward in aggregate terms, though not in terms of per capita. But the days when the industry could sell whatever it produced were over long ago and will, in all probability, not come again. The consumer will have a greater choice of fabrics, once the plans for expanding the production of cellulosic staple fibres and synthetic fibres materialise. He will, therefore, have to be wooed to buy cotton textiles if they are to claim the predominent portion of his budget for clothing. This calls for an improvement in the quality and appearance of cotton textiles and a substantial decrease in price suited to the common man's purse.

Our foregoing dsicussion reveals a severe rise in production cost whose realisation is not feasible through sales in the home market which are decreasing due to prevailing inflationary condition, decreasing purchasing power and its losing battle against man-made fabrics. Hence, now foreign market remains the only other source from where realisation may be expected. Let us see how the Indian Industry fares in the world market.

It is a well known fact that on account of open international competition and prevalence of various languages, customs, laws and by laws, the foreign trade is more difficult and complicated than the home trade. Moreover, foreign trade is also subject to the changing patterns and trends. It is, therefore, desirable to have an idea of these changing trends.

The demand for imported textiles is constantly changing, mainly as a result of the development of local industries, so that markets have changed a great deal both in actual and relative importance. These changes are sufficiently violent if we go back far enough; for example, the India and China markets in the years prior to World War I accounted for nearly half of world imports of cotton textiles- almost as much, in fact, as total world trade now; while in 1948 they accounted for less than 3 per cent of world trade,[1] and in fact exported their own production a yardage many times greater than they imported. Similar changes have taken place in the relative importance of the exporting countries. For example, prior to world war I the United Kingdom alone exported a considerably greater volume of cotton piece goods than is now exported by all countries, and held three-quarters of the total trade, while in 1948 her share had fallen to less than one-quarter.[2] Such changes which have since taken place reveal underlying tendencies which are still operating.

SOME TRENDS IN WORLD TRADE

CONSUMPTION:

Confining ourselves at the moment to the overall position, certain major trends in the textile trade are clearly discernible. The first one is the gradual increase throughout the world in the consumption of cotton and rayon textiles. If we eliminate trade cycle influence, then during the inter-war period the increase averaged between 2 and 3 per cent per annum.[3] The disturbance caused by the war was such, in fact, that it was not until four or

1. U.K. Board of Trade Reorganisation of the Cotton Textile Industry, pp. 9-12.
2. Ibid
3. Ibid

five years after the end of the war that consumption recovered to its pre-war level. It is reasonable to relate the increase in world consumption to that in world population, which varies somewhat, mainly on account of wars, but does not deviate far from an average rate of increase of about 1 per cent per annum,[1] so that what we have is a gradual increase in world consumption corresponding on the whole to the increase in population but also showing a slight increase in consumption per head.

The relative stability in figures of consumption of cotton and rayon textiles per head is an important factor in an otherwise changing world. The available data which consumption of textiles in the United States and in India for some 50 years prior to the war, it is remarkable that there has been so little change in consumption per head at the peak periods in each market. Thus consumption per head of cotton piece goods in India in 1935-37 was 15.6 yards compared with 15.7 in 1926-28 and 16.2 in 1912-14. United States consumption per head was 26.6 lb. in 1906-07 compared with 27.2 in 1926-27, while coming to more recent times the consumption per head in the United States of cotton and rayon piece goods was 74 yards in 1947 compared with 75 yards in 1937.

There is still a great deal of work to be done before a satisfactory explanation of the variations in textile demand is available. Consumer studies, especially in the United States, have shown that there is, as one would expect, a close relationship between income and clothing expenditure, but the precise relation is not clear.

---

1. U.K. Board of Trade: Re-organisation of the Cotton Textile Industry, p. 13.

At the lower income levels clothing expenditure, given a basic minimum, is less essential and can be reduced or increased more easily than, for example, expenditure on food. At these levels, therefore, one would expect increased income to lead to a more than proportionate change in clothing expenditure, and consumer studies have confirmed this. At the other end of the income scale, increased income should lead to a less than proportionate change in clothing expenditure, and this view has also received some confirmation.[1] At what income level the expenditure elasticity changes is uncertain. It has also been shown that variation in income is also the main explanation of the large differences we find in consumption per head in the various markets, ranging from 70 yards to about 7 in some of the African countries.[2]

THE PRE-WAR PATTERN AND RECENT CHANGES:

Here it is proposed to study some of the main features in the pre-war pattern of world trade in cotton; rayon textiles and to note as to how far these have been modified by the war and subsequent events. To assist in this analysis the various countries have been divided into two classes; firstly those which were in the immediate pre-war years substantial exporters of cotton goods, offering themselves with the exception of India a relatively negligible market for imported textiles, and secondly those which were importers having a relatively negligible export trade. Dealing first with the exporting countries, about two-thirds of world trade in cotton textiles was held by the United Kingdom and Japan, both of which produced more than half their output for the export trade. Adding four other European countries- France, Italy, Holland and Belgium, which exported at least one-quarter of their output, they account for over 80 per cent of world trade,

1&2. N.P.C: Textile Industry in European Countries, p.4 and 1788.

which was, therefore, largely in the hands of countries specialising in the export trade.[1]

All of these large exporting countries had colonial markets in which some degree of preference was normally maintained. About tow-thirds of United Kingdom exports went to British colonies, nearly 20 per cent of Japanese exports to Manchuria and Korea; almost all French exports to the French possessions; 80 per cent of Netherland exports and one-quarter of Italian exports to their respective possessions. Amongst other countries there was a preferential position such that for example almost half of U.S.A.'s exports went to the Philipines and Cuba and nearly half of the Indian exports to Burma.[2]

Apart from the preferential element, the main factors governing the destination of world exports were first geographical propinquity as in the case of U.S.A. supplies to Canada, Russian exports to the adjacent countries of Persia and Afghanistan, Czechoslovak exports to nearby Central European countries; and secondly cultural links often closely allied to geography but accounting especially for Italian and Spanish exports to South America.[3]

The importing areas of the world could be grouped into the colonial territories of the various European powers, the Dominions, the Near East, India, Central and South America and Northern Europe. This was essentially the result of the distribution of industry, especially in the case of the first two groups. The importance of

1. Kothari. Economic Guide. op. cit. 1782.
2 & 3. National Productivity Council. op. cit. pp. 8,9.

the colonial territories, India and the Near East was such that three-quarters of world trade in cotton textiles went to these destinations and was, therefore, intended for native use.[1]

The changes which have taken place so far in this pattern of trade have been very striking. First of all, the division between exporting and importing countries has been modified by the development of local industries transferring certain countries such as Egypt (U.A.R.), Mexico and Colombia from net importing countries of cotton textiles to net exporting countries or very close to that position. A similar effect has been produced by the geographical separation of India into the Republic of India, a cotton manufacturing area and Republic of Pakistan, a Cotton growing area, making the first into a net exporter and the second into an importer. In case of Pakistan the situation again changed making it exporter in place of importer of cotton goods although only two decades back she was considered to be the largest potential importer of cotton textiles. The break-up of the Japanese Empire has liberated Manchuria, Korea and Formosa; and similar territories have derived from the break-up of the Italian African Empire.

In the first post-war year (1946), the markets of the world were supplied mainly by the United States and then in order of importance by United Kingdom, India and Brazil. In 1947, world trade registered a tremendous increase, in which U.S.A., Japan,

---

1. National Productivity Council, op. cit. pp. 8,9.

China, France and Belgium were the main participators. World trade continued to expand in 1948, but this time the United Kingdom was able to secure a larger share, along with Italy, the Netherlands and Czechoslovakia, while exports from U.S.A. and specially from Brazil declined. In general, most of the principal exporting countries show a great diversification of markets.[1]

THE OUTLOOK:

The available information of exports from the principal countries show that world trade in cotton textiles is still in a state of violent change and that the post-war position has not yet settled down into any thing like equilibrium. For this reason, it is important to consider the underlying trends which have appeared so far and to forecast as to what their effect will be if they continue, as this is likely to give a more accurate idea of the future than does the present situation.

Turning to the suppliers, the ultimate distribution of trade among them depends first upon their competitive efficiency and secondly on the extent to which the pre-war system of preferences and other advantages in the various markets will continue. Apart from changes in competitive ability, the export performance of the various exporting countries will be permanently affected by the ultimate preferential situation which may develop in Burma, Korea, Indonesia, former Italian East Africa, middle East and possibly

---

1. National Productivity Council. Textile Industry in European Countries, p. 10.

French Indo-China markets, which are likely to account for nearly one-third of world trade in cotton textiles.[1]

Thus, the discussion of world trends in textile trade reveals that the world market of today is shrinking day by day due to development of home industries in importing countries, increasing use of man-made fibre fabrics and also on account of the preferences granted by the importing countries to various exporting countries on cultural, social, geographical, economic and political grounds. In other words, it means, increasing number of competitors in a comparatively smaller world market and hence severe competition. On account of this trend, the world market will be caputred and retained only by those, who, in broad sense, have superior ability to compete. Under these circumstances, if Indian textile industry wants, which it must, to enter successfully in the world market, it must also acquire, if not already acquired, the necessary will and ability to compete.

As a result of partition, it has become imperative for the Indian textile industry to sell about 20 per cent of its annual output amounting to well over 1,000 million metres in overseas markets. Any sharp decline in the volume of cloth export will increase the unsold stock with the mills and with a mounting surplus of its goods, the industry would not be in a position to maintain an optimum level of production unless what is lost through declining exports is made good by increased consumption at home, which, as we have already seen, is not possible under present circumstances. Further, in the absence of optimum production, it would be virtually impossible to realise least cost. It is thus clear that any serious set back to

---

1. National Productivity Council, op. cit. p.10

exports would result in lesser output, higher cost, lesser employment and lesser consumption. The industry must be saved from such a problematic situation, as there is no alternative to the cycle of production, profits, investment, employment, production. Therefore, it is absolutely necessary to capture and retain the foreign markets. But materialisation of this objective has become difficult to a considerable extent due to the prevailing conditions in the foreign markets. As already mentioned, during the past two or three decades the pattern of world trade in textiles has been undergoing a steady change. Countries, and more particularly those growing their own cotton, which had been traditionally importing their cloth requirements, have been gradually emancipating themselves from such dependence by setting up their own cloth and yarn mills.

It will not be out of place to mention here that exporting of textiles is no longer a profitable proposition. The reason being that domestic prices are higher than export prices, by any thing from 5 per cent (as in case of greys) to as much as 30 per cent, in case of certain varieties of processed goods.

All these facts indicate the weaknesses of the Indian textile industry. The Indian exporter is not in a position to compete successfully in the foreign markets due to financial, technical and moral weaknesses. With such severe handicaps, India has to contend against her formidable overseas competitors who have been making determined efforts to wrest a greater share of international trade in textile from the new entrants.

Under such circumstances one should not be surprised when he finds that India's performance in the export trade in textiles has not been quite satisfactory in recent years. Whereas in 1950, India attained the coveted front rank by shipping 1,133 million yards of mill cloth, the subsequent record shows that it has been losing ground to its overseas competitors. Thus, downward trend of Indian textiles exports is very well illustrated in the following Table.

TABLE - LI

EXPORTS OF COTTON YARN AND MILL-MADE CLOTH

YEAR	YARN (million Kg.)	CLOTH (million Metres)
1960	6.41	635.36
1961	7.14	525.14
1962	10.42	464.85
1963	13.55	485.69
1964	12.37	502.87
1965	12.75	506.85
1966	16.20	424.33
1967	11.02	409.56
1968	16.60	471.50
1969	16.10	418.68
1970	24.69●	291.46●

SOURCE: Indian Textile Bulletin. Jan. 1970, pp.141, Feb. 1971, pp.147.
● = nine months.

The table reveals that the yarn exports have been progressively going up amounting to 16.20 million kgs. in 1966 as against only 6.41 million kgs. in 1960. The figures of 1968 seems to be the highest in last 9 years with 16.60 kgs. which slightly reduced in 1969 at 16.10 million kgs.

It is further revealed that in the textile exports during the last nine years the peak period was in 1960 with an export performance

of 635.36 million metres of cloth. While the export of cloth came down in 1961, 1962 and 1963, there is a slight pick up in 1964 and 1965 and then the exports again declined in 1966 and 1967. In 1968 from the previous years figures of 409.56 million metres, it increased to 471.50 million metres but again came down to 418.68 million metres in 1969.

On the whole, there is a downward trend in the export of cotton cloth. In 1960, the exports stood at 635.36 million metres and came down to 418.68 million metres in 1969 indicating a decrease by 34.1 per cent within last 9 years.

Now it is clear that due to various factors, already discussed, Indian exports in textiles are on a downward trend. It is true that there have also been few occasions of satisfactory performance, but the fact remains that frequent fluctuations of this kind do not augur well for the future of the industry whose supreme need is a stable outlet for its output that is surplus to home requirements.

Due to these adverse tendencies in the home and foreign markets, the production of Indian cotton mills is also following the same downward trend which is evident from Table - LV.

The table reveals that production-wise, 1969 has been slightly unfavourable. Yarn production in 1969 was 95 million kgs., a drop of 14 million kgs. or 1.5 per cent over 1968. The drop in the output of cloth in both the mills and decentralised sectors was slightly greater- 4.2 per cent in the former and 1.1 per cent in the latter. Thus, the

TABLE - LII

TREND OF PRODUCTION

YEAR	CLOTH (million metres)			YARN (million kgs.)
	Mill Sector	Decentralised Sector	Total	
1964	4,653	3,066	7,719	965
1965	4,587	3,056	7,643	939
1966	4,239	3,097	7,336	901
1967	4,097	3,179	7,276	896
1968	4,366	3,530	7,896	961
1969	4,168	3,538	7,706	951
1970	4,157	3,692	7,849	964

SOURCE: Indian Textile Bulletin, February 1971,op.cit.p.4

mill sector wove 4,157 million metres in 1970 and the decentralised sector 3,692 million metres as against 4,168 m.m. and 3,538 m.m. respectively in the previous year.

It will be noted that after continuously declinging from 965 million kgs. in 1964 to 896 million kgs. in 1967, yarn production looked up in 1968 when it touched 961 million kgs., only about four million kgs. short of the record level touched five years earlier. It slipped to 951 million kgs. in 1969, but again moved up to 964 million kgs. in 1970.

Cloth production in the mill sector was down by 198 million metres in 1969 in contrast to a rise of 269 million metres in 1968. The decentralised sector in 1970 was 154 million metres higher at

3,692 million metres.

In the result, the total cloth production in 1970 at 7,849 million metres shows a significant drop of about 47 million from the peak of 7,896 million metres touched in 1968. Thus, the sixties have ended without the last year of the decade establishing a new record in the sphere of production.

The decline in cotton textile manufactures in 1969 was the cumulative result of sluggish demand for cloth during the major part of the year, labour troubles resulting in strikes in some centres and disturbance to peace in certain areas. Indicative of the poor demand for cloth was the fact that cloth stocks with mills indicate an increasing trend which may also be seen in the following table-LVI.

TABLE -LVII

STOCKS WITH THE INDUSTRY

YEARS	SPINNING (lakhs kgs.)	WEAVING (m. metres)
1960-61	89	207
1961-62	78	262
1962-63	87	290
1963-64	118	146
1964-65	145	267
1965-66	110	206
1966-67	78	175
1967-68	269	386
1968-69	154	387
1969-70	172	337

SOURCE:- R.B.I. Bulletin, Sept.1969, p.1512, and Indian Textile Bulletin, February, 1971, pp. 49,49.

The table reveals that the accumulation of unsold stocks in the spinning sector considerably increased during 1962-66 and a similar increase in the weaving sector is witnessed during 1961-63 and 1964-65. During 1967-68, in both spinning and weaving sectors, the unsold stocks with the industry stood at 269 lakhs kgs. and 386 million metres respectively which is a clear indication of an abrupt increase in the accumulation by 249.9 per cent and 120.5 per cent over previous levels or 202.2 per cent and 86.5 per cent over 1960-61 levels. In subsequent years the position of spinning section improved considerably with no significant change in weaving section.

This alarming increase in the unsold stocks at a time when the industry is facing severe cost crisis and the production performance is also very low clearly shows that even the reduced quantities of Indian cotton goods are facing consumer resistance, both in the home and foreign markets. Further, the future prospects are also very doubtful due to ever increasing problems, specially in the foreign markets as is evident from the announcement of the U.K. Government in the middle of 1969 indicating their intention to introduce from first January, 1972, a tariff on imports of cotton textiles from the Common Wealth preference area. The Tariff system would replace the present quota system and the level of the tariff would be that proposed in the Textile Council Report, viz. 6.5 per cent on yarn, 15 per cent on cotton cloth and 17 per cent on most garments.[1]

United Kingdom is the largest single buyer of Indian textiles

---

1. Export Promotion Council Report 1969, p. 35 & 37.

taking about 195 to 210 million yards per year which accounts as much as 35 per cent of Indian exports of cotton textiles. These earn for India foreign exchange in the neighbourhood of 16.5 million.[1] The results of a drastic drop in these exports will be very serious indeed on the economy of Indian cotton textile industry in particular and the Indian economy in general. President of the British Board of Trade, himself singled out India for being mentioned as the country which would suffer the most from the proposed measures of the U.K. government.

It would not be possible to make any accurate forecast of the extent to which Indian exports to U.K. will suffer after 1972. However, knowledgeable circles in the textile trade and industry of India are of the opinion that almost 65 per cent of India's trade with the U.K. will be lost, once the quota system is abolished and the import tariff begins to apply to Indian products. In cotton yarn, where the Indian quota is 11.8 million lbs. (worth about £ 1.75 million), these circles envisage that India will be able to retain only one third of its present trade and losing the balance- two-thirds.[2]

The main overseas victims, as conditions exist today, is going to be India. Until now India has continued to be the biggest single supplier of cotton grey cloth to Britain, simply because it is protected by the present system under which countries have individual quotas in addition to the global quota that applies to imports from any source.

---

1. Export Promotion Council Report 1969, p. 35 & 37.
2. Report of the Millowners' Association, Bombay 1970, p.16.

Without its individual quota, India will be in trouble. More worrying, though, is what will happen if and when Britain enters the Common Market. It is not at all clear what, if any, further changes will have to be made.

From the above critical examination, it is clear that the Indian textile industry is facing a rough weather and its future prospects are also not bright. The cost of production is increasing day by day whereas sales both at home and abroad are showing a downward trend which is resulting in piling up unsold stocks. Such a situation where increased costs are not offset through similar trend in sales, is bound to have its effects and serious repercussions on the profitability of the industry.

EXCISE DUTY AS A FACTOR OF COST :

It has been fully analysed to indicate that the rising costs of production in the Cotton Textile Industry have not been offset through similar trend in sales. The home market as well as foreign market have continued to show the depressing features. Again, in recent years excise duty has also become an important element of cost, the burden of which is being directly and indirectly borne by the industry. The following Table shows the increasing trend in excise duty during the period 1947-48 to 1970-71.

TABLE - LIV

GROWTH OF EXCISE DUTY ON CLOTH AND YARN

(in crores of rupees)

YEAR	ON CLOTH			ON YARN	GRAND TOTAL
	Basic	Additional	Total		
1947-48	Nil	-	-	-	-
1948-49	0.87	-	0.87	-	0.87
1956-57	51.86	-	51.86	-	51.86
1957-58	64.60	6.39	70.99	-	70.99
1959-60	46.75	19.96	66.71	-	66.71
1960-61	45.94	20.33	66.27	0.13	66.40
1965-66	50.49	20.52	71.01	26.63	96.44
1970-71	55.95	21.79	77.74	33.66	111.40

SOURCE: Hand Book of Statistics on Textile Industry, Indian Cotton Mills Federation, Bombay, July 1,1970. p.37

NOTE: figures of processing duty and handloom cess are included in the basic duty.

The table reveals that till 1947-48 cotton textile industry was left free of excise duty. Basic excise duty, additional duty and duty on yarn started from 1948-49, 1957-58 and 1960-61 respectively. These put together have enhanced government income through this source from less than one crore rupees in 1948-49 to 111.40 crores in 1970-71 as per Budget estimates. Thus, the excise duty is a healthy source of revenue to the Government but it has considerably depressed the future of the industry by inflating its cost whose incidence is entirely on the industry itself.

SECTION- III

PROFITABILITY OF COTTON TEXTILE INDUSTRY

It is obvious from the review of cost structure and sales prospects that the industry could hardly maintain its profitability. The Indian textile industry, during the period under review, has witnessed an overall increase of about 54 per cent in its production cost while the comparative study of the same period for the income trend shows a proportionately downward trend. The total income from sales and other sources during 1960-61 to 1965-66 is given in the following table.

TABLE - LV

PARTICULARS OF TOTAL INCOME

(Rs. in lakhs)

YEAR	Income from sales	Other income	Total income	Percentage increase over 1960-61 (Total income)
1960-61	611,01	4,69	615.70	-
1961-62	685,36	5,07	690,43	12.1
1962-63	706,39	5,95	712,34	15.7
1964-64	808,16	7,33	815,49	32.4
1964-65	854,82	8,50	863,32	40.2
1965-66	903,86	8,98	912,84	48.3

SOURCE: R.B.I. Dec.1967 Bulletin, p. 1568.

The main source of income was sales as it constituted about 99 per cent of the total income in all the years under review. The percentage increase in the income from sales in 1965-66 over 1960-61 was about 48, while that from other sources was about 91.

The above data indicates that there has been 54.3 per cent rise in expenditure whereas increase in income during the same period is only by 48.3 per cent. This situation is bound to have its repercussion on the profits and dividends of the industry. The position of profits and their disposition and appropriation is examined in the following table:

TABLE- LVI

PROFITS AND DIVIDENDS

(Rs. in lakhs)

ITEM	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66
1. Gross Profit	58,36	68,85 (18.0)	46,86 (-19.7)	55,27 (-5.3)	59,89 (2.6)	43,33 (-25.8)
2. Profits before tax	54,38	54,70 (20.5)	32,55 (-28.3)	37,02 (-18.4)	38,56 (-15.0)	16,95 (-62.6)
3. Profits after tax	29,70	31,92 (7.5)	14,78 (-50.2)	18,63 (-37.3)	20,84 (-29.8)	3,22 (-89.2)
4. Dividends	13,60	14,85 (9.2)	12,85 (-5.5)	14,13 (3.9)	14,58 (7.2)	12,31 (-9.5)
5. Profits retained	16,10	17,07 (6.0)	1,93 (-88.0)	4,50 (-72.0)	6,26 (-61.1)	- 9,09 (-156.5)

Profits before tax: = Gross profit minus interest and managing agents' remuneration.
Figures in brackets indicate percentage increase of decrease (-) over 1960-61.
SOURCE: Reserven Bank of India Bulletin, December, 1967, p. 1568.

The foregoing table shows that companies under analysis taken as a whole made profits during 1960-61 to 1965-66. But the gross profits declined by about 26 per cent in 1965-66 over 1960-61; the profits before tax by about 63 per cent in 1965-66 over 1960-61 and the profits after tax by about 89 per cent in 1965-66 over 1960-61. The retained profits which indicated a rise in 1961-62 by 6 per cent over 1960-61 declined sharply thereafter as the fall was about 88 per cent in 1962-63 over

1960-61; about 61 per cent in 1964-65 over 1960-61 and about 157 per cent in 1965-66 over 1960-61. In 1965-66, a sum of Rs. 9 crores was presumably withdrawn from the past reserves to pay the dividends. Thus the level of total payment of dividends was maintained in 1965-66, although it was less by about 10 per cent over 1960-61.

The table clearly indicates that our fears regarding adverse effects on profit and dividends are correct. Now let us also see how the profitability of the industry has been effected. The profitability ration in relation to sales, capital employed and net worth are furnished in the following table:

TABLE - LVII

PROFITABILITY RATIO

YEAR	Gross Profits as percentage of sales	Gross Profits as percentage of capital employed	Net Profits (profit after tax as percentage of net worth
1960-61	9.6	12.2	13.8
1961-62	10.0	13.2	13.4
1962-63	6.6	8.1	5.9
1963-64	6.8	9.0	7.2
1964-65	7.0	9.8	7.7
1965-66	4.8	5.9	1.2

SOURCE: R.B.I. Bulletin, December, 1967, p. 1540-41.

The margin of profits as measured by the ratio of gross profits to sales was 6.6. and 6.8 in 1962-63 and 1963-64 respectively, being low as compared to the previous years. It increased to 7.0 in 1964-65 and again fell steeply to 4.8 in 1965-66, which was half of that in

1960-61. The overall return on capital employed, as measured by the gross profits as a percentage to the capital employed declined from 1961-62. It increased from 12.2 in 1960-61 to 13.2 in 1961-62. During the subsequent years, it declined sharply. It was 5.9 in 1965-66, which was even less than half of that in 1961-62. As regards the ratio of profits after tax to net worth, there was a substantial fall from 13.8 in 1960-61 to 1.2 in 1965-66.

The effects on profitability ratio of the Indian textile industry are not different from what we have already noticed in our earlier analysis of profits and dividends. Now it is, but natural to have a desire to know as to whether similar situation is also faced by the other industries of the country or it is only the textile industry which is unfortunate in this respect. Necessary comparative information in this connection is provided by the following table:

TABLE - LVIII

PROFITABILITY RATIOS OF TEXTILE INDUSTRY vis-a-vis ALL INDUSTRIES.

YEAR	Gross Profits as percentage of sales		Profits after tax as percentage of net worth		Divided as percentage of net worth	
	Cotton tex. industry	All industries	Cotton tex. industry	All industries	Cotton tex. ind.	All industries
1960-61	9.6	10.3	13.8	11.0	6.3	6.6
1961-62	10.0	10.1	13.4	10.0	6.2	6.4
1962-63	6.6	10.1	5.9	8.7	5.2	5.8
1962-64	6.8	10.2	7.2	9.5	5.4	5.8
1964-65	7.0	9.9	7.7	9.3	5.4	5.7
1965-66	4.8	9.4	1.2	8.7	4.6	5.6

SOURCE: R.B.I. Bulletin December, 1967.

It will be observed that the textile industry's gross profits as percentage of sales, or profits after tax as percentage of net worth have shown a sharp fall in 1965-66 over 1960-61, whereas in case of all industries the comparative fall is nominal. In this connection, the following observation made by the Reserve Bank of India is quite pertinent:

> "Much of the deterioration in the corporate sector's overall performance, as noticed above, may, however, be attributed to the exceptionally poor showing of the cotton textile companies which formed the largest group of selected companies, viz. 256 or nearly one-fifth of the total companies studied in this article."

This comparative study makes it abundantly clear that whereas the position of other industries is nearly normal, it is only the textile industry which is hard hit. Being the only industry facing so much adverse situation, it rightly requires some special consideration. In this context, it would be interesting to study the reactions of the government. The following table-LIX, is helpful in this regard.

From the table, it will be observed that sales increased from Rs. 611 crores in 1960-61 to Rs. 904 crores in 1965-66, i.e. by 48 per cent. One would, therefore, normally expect that with the increase in sales, profits would go up and consequently, the revenues in the shape of direct taxes derivable by the government. Reading down the table one can not but be disappointed to find profits having actually gone down precipitously. The tax provisions have further deteriorated the profits position just for an instance, in 1965-66 profits before tax

stood

TABLE -LIX

GOVERNMENT REVENUES FROM TEXTILE INDUSTRY (Rs. in Cr.)

Year	1960-61	1962-62	1962-63	1963-64	1964-65	1965-66
Sales	611.0	685.4	706.4	808.2	854.8	903.9
EXPENDITURE PRINCIPAL ITEMS						
(1) Raw Materials	269.5	281.7	308.9	334.9	368.1	395.9
(2) Wages	138.7	147.6	157.0	162.4	189.1	201.7
(3) Other Manufacturing expenses	79.4	90.9	99.1	110.1	122.4	133.5
(4) Excise duty and cess	40.4	51.5	59.6	70.4	76.2	74.1
(5) Other expenses	26.3	31.0	34.6	37.7	37.8	43.1
(6) Depreciation	22.1	22.9	24.3	32.3	36.1	34.6
(7) Interest	9.2	10.3	11.4	15.2	18.5	24.1
Profits before tax	45.4	54.7	32.6	37.0	38.6	17.0
Tax provision	15.7	22.8	17.8	18.4	17.7	13.7
Profit after tax	29.7	31.9	14.8	18.6	20.8	3.2

SOURCE: R.B.I. December, 1967.

stood at Rs. 17.0 crores which came down to mere Rs. 3.2 crores after tax. Even then the government did not get its expected revenues in that tax provision actually declined from Rs. 15.7 crores in 1960-61 to Rs. 13.7 crores in 1965-66 i.e. by 12.7 per cent.

It is clear from the table that decline in profitability has not been recognised by tax policy, consequently profits after tax have declined sharply. Now I propose to analyse the Ancillary profitability ratios. The ratio of total dividends to net worth and to total paid up capital and the ratio of ordinary dividends to equity shares are set out in table below:

TABLE - LX

ANCILLARY PROFITABILITY RATIOS

YEAR	Dividend as percentage of net worth	Ordinary dividends as percentage of ordinary paid up capital	Total dividend as percentage of total paid up capital
1960-61	6.3	13.4	12.2
1961-62	6.2	13.8	12.7
1962-63	5.2	11.5	10.6
1963-64	5.4	12.5	11.4
1964-65	5.4	12.6	11.5
1965-66	4.6	10.2	9.4

SOURCE: R.B.I. BULLETIN, December, 1967, pp. 1541-42.

The dividends as percentage of net worth declined from 6.3 in 1960-61 to 4.6 in 1965-66. Both the ordinary dividends as percentage of the ordinary paid up capital and the total dividends as percentage of the total paid-up capital indicated a fall during 1962-63 and 1965-66 compared to the immediately preceding years, while in the other years, they increased marginally over the immediately preceding year. The ordinary dividends as percentage of the ordinary paid up capital increased from 13.4 in 1960-61 to 13.8 in 1961-62. Thereafter it declined and in 1965-66, it was 10.2. Similarly, the total dividends as percentage of total paid-up capital increased from 12.2 in 1960-61 to 12.7 in 1961-62 and declined thereafter. It was 9.4 in 1965-66.

Thus, the foregoing table shows that the decline in profits after tax has adversely effected the interest of share holders. And now the following table gives the distribution of profits during 1960-61 to 1965-66.

TABLE - LXI

PROFIT ALLOCATION RATIOS

YEAR	Dividends as percentage of profits before tax.	Profits retained as %age of profits before tax	Dividends as percentage of profits after tax	Profits retained as percentage of profits after tax.
1960-61	30.0	35.5	45.8	54.2
1961-62	27.2	31.2	46.5	53.5
1962-63	39.5	5.9	86.9	13.1
1963-64	38.2	12.2	75.9	24.1
1964-65	37.8	16.2	70.0	30.0
1965-66	72.7	-53.8	384.6	-284.6

SOURCE: R.B.I. Bulletin, December, 1967, pp. 1536-38
NOTE: 100- (cols. 2 and 3) represents tax provision.

It may be seen from the above table that the dividends as a proportion to the profits before tax increased from 30 per cent in 1960-61 to about 73 per cent in 1965-66. Viewed in relation to the profits after tax, the ratio was as high as about 385 in 1965-66 as against about 46 in 1960-61. The ratio of profits retained as percentage of profits before tax was the highest in 1960-61, being about 36. It declined to about 6 in 1962-63, increased to about 12 and 16 in 1963-64 and 1964-65 respectively and was sharply negative (-53.8) in 1965-66. The profit retention, i.e. the proportion of retained profits to profits after tax which was about 54 per cent in 1960-61 fell down to about 13 per cent in 1962-63, and again pushed up to 24 per cent and 30 per cent in 1963-64 and 1964-65, respectively. But in 1965-66, the ratio was sharply negative (-284.6).

This shows that the effect of high rates of tax provisions has fallen both on retained earnings as well as distributed profits. Now finally, let us observe the following table which furnishes the figures of capital formation rates during 1961-62 to 1965-66:

TABLE - LXII

CAPITAL FORMATION RATES

(per cent per annum)

YEAR	Gross fixed Assets formation	Net fixed assets formation	Gross capital formation	Net capital formation.
1961-62	10.6	10.8	9.0	8.3
1962-63	11.2	14.8	10.5	12.0
1963-64	11.3	9.3	8.9	6.6
1964-65	10.1	6.9	11.2	10.0
1965-66	9.0	8.5	8.1	7.2

SOURCE: R.B.I. BULLETIN; December 1967, pp. 548-50.

The above figures show that the gross capital formation and the net capital formation made sharp variations in the alternative years. However, the overall position shows a fall in 1965-66 over 1961-62 in all the cases.

Since capital formation is a function of savings and investment, therefore, decline in the internal resources of the industry has severely effected its rate of growth. The foregoing table fully supports this conclusion.

The situation as revealed by the foregoing discussion clearly reveals a severe crisis in India textile industry. The crisis, has deepend to such an extent that 58 cotton textile mills were lying closed at the end of

September 1968. The figure did not include mills which have been lying closed for years and have been scrapped or are being scrapped and whose number is around 26. Thus, in all, 84 mills out of 630 mills have been closed down. This accounts for about 25 million spindles and about 30,000 looms which have been rendered idle. In other words, it may be said that about 14 per cent of the industry is lying closed. Loss to the country as a result of successive closures of mills is enormous which is evident from the fact that more than 65,000 workers have become unemployed and the loss in terms of production per day works out to about 10 lakh metres of cloth. Few more closures have been reported during last quarter of 1968 which may thus raise the figure of closed mills to about 90 at the end of 1968. The following table provides a clear picture of mill closures:

TABLE-LXII

MILLS CLOSURES

YEAR/Month	Total No. of Mills	Total closed mills	Closed units as %age of total mills
1966	609	53	9.22%
1967	630	56	9.20%
1968 January	630	58	9.52%
February	630	61	10.00%
March	630	60	9.85%
April	630	70	11.49%
May	630	77	12.64%
June	630	75	12.31%
July	630	77	12.64%
Aug./Sept.	630	84(58+26)	13.79%

SOURCE: Gujrat Textile Reorganisation Committee Report, 1969. op.cit. p. 1

The table reveals that in 1966, out of 609 mills, as much as 53 mills were lying closed. The number of closed mills increased to 84 in August-September 1968. It further reveals that during first nine months of 1968 alone, as many as 26 new mills were closed, which clearly indicates that situation has been deteriorating at much fast rate in 1968 than ever before.

Such alarming increase in the number of closed mills can no longer be dismissed as a phenomenon which is of no significance in considering the health of the industry. While some of these closures might be attributed to mis-management, there can be no doubt that the rapidity with which the number of mill closures has been increasing is the result of the consumer's resistance to the increasing costs, and the industry's inability to fetch economic prices for its products. Further the absence of any worthwhile improvement in the trading conditions for the cotton mill industry in 1969 is also evident from the fact that there has been no change either in the number of mills lying closed or in the capacity rendered idle thereby. In fact, the unutilised capacity of the industry was much more, thus, out of an installed capacity of 17.5 million, the number of active spindles, at the end of October 1969, was in the neighbourhood of 13.50 million; similarly, out of 208,000 looms in place, 172,000 looms were active.

To get out of the impasse, worst for the industry during its existence, the central government has enacted, 'The Cotton Textile Companies (Management of Undertakings and Liquidation or Reconstruction) Act 1968. The National Textile Corporation has started working. Textile corporations at State level, in which National Textile Corporation will

be a major partner, are expected to carry out operational functions. The main functions of these corporations are:

(i) To decide to liquidate a textile company and sell the industry as a running concern at a reserved price fixed by it. If nobody comes forward to purchase at that price, then the corporation may purchase the concern.

(ii) Reconstruct the closed mills if advisable.

(iii) Managing the textile mills that may be acquired by the Government under the provisions of cotton textile companies Act.

(iv) Assist technically and financially in the rehabilitation and modernisation of mills.

Few of the States where textile industry is more concentrated have already formed State Textile Corporations.

The above measures may relieve the situation to some extent. It is, however, not possible for these corporations at National and State levels to be able to muster the necessary and adequate funds for the huge task of re-starting and reviving the large number of closed units and to resuscitate other similarly situated mills. As a result of the remedial measures the financial performance of the cotton textile industry has improved substantially during 1969-70. That this could be achieved in spite of a sharp decline in physical production is all the more revealing. Output of cloth in the mill sector fell from 4,168 million metres in 1969 to 5,157 million metres in 1970. Profitability, measured in terms of gross return on total capital employed, however, rose fairly substantially from 5.5 per cent in 1968-69 to 8.1 per cent in 1969-70 and gross return on sales improved from 4.4 per cent to 6.2 per cent. Even though the improvements in profitability can not be considered very significant when compared to the general level of profitability of 10

per cent in the industrial sector, the fact that it went up by as much as 50 per cent is not only interesting, but is also a sign of hope.

An analysis of the financial statements of 140 cotton textile companies in the private sector shows that their sales income has risen by 8.7 per cent from Rs. 649 crores in 1968-69 to Rs. 706 crores in 1969-70. This was mainly responsible for a spurt in their gross profits by more than 50 per cent, from Rs. 29 crores to Rs. 44 crores, and more companies did better during the year under study by either increasing their profits or reducing their losses. Companies which recorded unprofitable operations, as indicated by heavy drafts of reserves, declined from 76 in 1968-69 to 39 in 1969-70 and as many as 93 out of the 140 companies showed a rise in pre-tax profits in 1969-70.

A frequency distribution of the companies according to their profitability ratio shows that 67 companies had a gross return on total capital employed of more than 10 per cent in 1969-70, of which 19 companies had profitability of more than 15 per cent. Four companies had earned a gross return of 25 per cent on their capital employed (vide Table -LXV).

TABLE - LXIV

FREQUENCY DISTRIBUTION: PROFITABILITY RATIOS
1969-70

(No. of companies)

Class Intervals	Gross profits as a percentage of sales			Gross profit as a percentage to total capital			Net profits as a %age of owned funds		
	Comp.	Spg.	Total	Comp.	Spg.	Total	Comp.	Spg.	Total
Less than 0	8	5	13	7	5	12	20	11	31
0.1 - 1.0	1	1	2	-	-	-	1	-	1
1.1 - 5.0	23	7	30	12	6	18	10	2	12
5.1 - 10.0	58	17	75	38	5	43	24	9	33
10.1 - 15.0	11	5	16	37	11	48	21.	6	27
15.1 - 20.0	1	2	3	9	6	15	11	4	15
20.1 - 25.0	1	-	1	-	4	4	2	5	7
More than 25.0	-	-	-	-	-	-	14	-	4

SOURCE: The Economic Times - Research Bureau, September 17, 1971.

The phenomenon of rising profits against falling output during the year was largely due to a change in the product mix. Many mills resorted to production of fine and superfine clothes, perhaps, preferring to meet the penalty clause for not producing the requisite controlled cloth rather than to incur losses (substantially higher than the penalty imposed) due to the production of unremunerative production of cloth.

The higher gross profits enabled the companies to show higher pre-tax profits (Rs. 19.8 crores in 1969-70 against 4.8 crores in 1968-69) as well as higher after-tax profits (Rs. 12.0 crores in 1969-70 against a loss of Rs. 5.0 crores in 1968-69). In line with the increase in profits, dividend also rose from Rs. 7 crores to Rs. 8 crores and formed 4.5 per cent.of the owned funds in 1969-70 as against 3.9 per cent in the previous year.

These improvements are reflected in the major profitability ratios of the industry during the last decade, as seen from the following table.

TABLE-LXV

PROFITABILITY RATIOS

(percentages)

Year	Gross profits/sales	Gross profits/ total capital employed	Net profits/ owned funds	Dividend owned funds	Net profits
1960-61	9.6	12.2	13.8	6.3	45.8
1961-62	10.0	13.2	13.4	6.2	46.5
1962-63	6.6	5.9	5.9	5.2	86.9
1963-64	6.8	9.0	7.2	5.4	75.9
1964-65	7.0	8.8	7.7	5.4	70.0
1965-66	5.0	7.3	0.9	4.3	475.8
1966-67	6.7	7.4	4.5	4.4	97.9
1967-68	5.5	6.0	1.9	4.2	219.4
1968-69	4.4	5.5	-0.03	3.9	-
1969-70	6.2	8.1	6.3	4.5	70.0

SOURCE: The Economic Times, Research Bureau, September 17,1971.

The generally falling trend in profitability rates since 1963-64 was halted in the year 1969-70. In fact, some of the profitability indicators have risen substantially during the year. The frequency distribution of the companies according to their profitability ratios during 1969-70 showed that a little more than one-quarter of the companies had profitability in the range of 5.1 to 10.0 per cent.

The industry has, by and large, followed the liberal policy of dividend distribution. During the critical periods of 1967-68 and 1968-69, the industry resorted to heavy withdrawal from reserves to maintain dividend obligation because of the inadequate net profits. This is reflected not only in the payout ratios but also in the ratios of dividends to net worth. The fact that the number of companies incurring losses has considerably gone down from 60 in 1968-69 to 30 in 1969-70 is revealed by the following table.

TABLE -LXVI

PROFIT FLUCTUATIONS

(No. of companies)

	1968-69			1969-70		
	Comp.	Spg.	Total	Comp.	Spg.	Total
Retained profits negative	54	22	76	26	13	39
Retained profits positive	49	15	64	77	24	101
Losses	39	21	60	19	11	30
Pre-tax profits higher	-	-	-	69	24	93
Pre-tax profits lower	-	-	-	15	2	17

SOURCE: "The Economic Times". Research Bureau, September 17,1971.

Out of the 140 companies, 24 spinning units and 69 composite mills have shown higher pre-tax profits. Similarly, diversified mills also did better than non-diversified mills. The diversified units showed

the highest ratio of both gross profits to sales (10.7 per cent) and gross profits to total capital employed (12.1 per cent) in 1969-70. The gross return on sales in the case of composite and spinning mills was 6.2 per cent and 6.3 per cent.respectively. All the profitability rates have recorded sizeable increases in the three sectors. Disparity in sales, profits and profitability of the three sectors namely, composite, spinning and diversified mills in the cotton textile industry is quite marked as seen in Table below.

TABLE -LXVII

SECTORAL DISPARITY

UNITS	INCREASE IN			PROFIT RATIO					
	Sales	Profits	Gross Block	GP/Sales		GP/TCE		PAT/NW	
				68-69	69-70	68-69	69-70	68-69	69-70
	...(Rs.)...			.....(percentages).....					
Composite Mills(104)	8.0	53.3	5.3	4.4	6.3	5.4	6.2	-0.4	6.1
Spinning Mills (36)	13.1	49.4	4.4	4.8	6.3	6.3	9.3	1.9	7.2
Diversified (9)	16.4	23.8	8.4	10.0	10.7	10.6	12.1	11.7	15.2

SOURCE: "The Economic Times". Research Bureau, September 17,1971.

Lower physical output, on the one hand, and higher selling prices, on the other, resulted in a fall in the manufacturing expenses in terms of total value of production. The ratio of manufacturing expenses to total value of production declined from 65.7 per cent to 64.7 per cent in 1969-70. Wage bills also declined from 23.5 per cent to 22.7 per cent. Both the composite and spinning units showed a fall in the proportion of wage bills. The major components of cost expressed as a percentage of value of production are given in the following table.

TABLE-LVIII

COST STRUCTURE

(percentage of total)

ITEM	TOTAL		COMPOSITE		SPINNING	
	68-69	69-70	68-69	69-70	68-69	69-70
1. Manufacturing Expenses	65.7	64.7	64.9	64.0	70.6	69.4
2. Wage Bills	23.5	22.7	24.2	23.4	18.8	18.4
3. Depreciation	3.7	3.6	3.7	3.5	3.7	3.6
4. Other expenses	4.3	4.3	4.3	4.4	3.5	3.8
5. Interest	3.5	3.3	3.6	3.4	3.2	2.8

NOTE : The total of the constitutents in each year will be less or more than 100 to the export of profit or loss, the industry makes in that year.

SOURCE: The Economic Times. Research Bureau, September 17,1971.

Despite the fact that the physical output of the cotton textile mills fell in 1969-70, the financial performance has shown improvement. a factor to be reckoned with. It is possible that with the larger raw material availability, better working of sick mills and re-opening of the closed mills, cotton industry may show still better performance. In a number of cases take-over of sick mills has reduced their accumulated losses quite substantially and there are general signs of recovery in them, though take-overs have not immunised them completely from their illness.

The improvement in the profit has considerably increased the growth rate through internal financing as revealed by the following table.

TABLE - LXIX

COMBINED BALANCE-SHEET OF 140 COTTON TEXTILE COMPANIES IN INDIA

(Rs. in lakhs)

CAPITAL AND LIABILITIES	68-69	69-70	A S S E T S	68-69	69-70
Share Capital	9689	10247	Gross Fixed Assets	45020	47342
a. Equity	8247	8795	a. Depreciation	24680	29795
b. Preference	1412	1452	Net fixed assets	20340	20547
Reserves and Surplus	7875	8252	Inventory	21049	21321
Borrowings	24931	24864	a. Raw materials	7374	7080
a. Banks	15834	15365	b. Finished goods and work-in-progress	11163	11121
b. Debentures	1586	1723			
c. Financial institutions	2157	2052	c. Stores	2512	3120
d. Government	501	578	Investment in securities	1659	1724
e. Managing Directors, agents, etc.	240	190	d. Government	72	70
			e. Industrial	1224	1302
f. Others	4613	4956	f. Subsidiaries	344	347
			g. Others	1	5
Tax Provision	104	131	Sundry Debtors	6009	6579
Other Libabilities	9940	10565	Loans and Advances	2357	2543
			Cash and Bank Balances	709	978
			Other assets	386	387
	52509	54079		52509	54079

SOURCE: ECONOMIC TIMES. Sept. 17,1971.

The total assets of the 140 companies stood at Rs. 541 crores in 1969-70. Owned funds, expressed as a percentage of total capital employed rose from 33.4 per cent to 34.2 per cent mainly due to their larger retention of profits in 1969-70. Gross fixed assets stood at Rs. 473 crores and net fixed assets at Rs. 205 crores.

Of the total assets formation of Rs. 37 crores, gross fixed assets formation was Rs. 23 crores, accouting for 63 per cent. Internal sources provided the largest share (78 per cent) of the total funds. Among the internal sources, depreciation and ploughed-back profits together amounted to Rs. 25 crores. Repayment of loans during 1969-70 amounted to Rs. 67 crores.

The rate of growth in production capacity as represented by the growth rate, after rising from 8.4 per cent in 1960-61 to 11.4 per cent in 1963-64, declined continuously to touch the low level of 5.2 per cent in 1969-70.

CONCLUSION:

The above analysis shows that the cost structure of the cotton textile industry during the last several years has considerably increased because of increasing prices of raw material and wage spiral. There is very little possibility of passing on the burden of increased cost on the consumers due to his poor purchasing power and ceiling on the prices of textiles by the Government in the home market and keen competition in the foreign market. In this manner, the industry has also to bear the major part of excise duty. All these factors have adversely affected the profitability of the industry. There are, however, a few individual units who, after modernisation, have considerably improved their profitability and they are now moving towards a stage of self-finance. This lends support to modernisation, the possibility of which has been examined, through auto-finance in the next Chapter.

———————oOOoo———————

CHAPTER - VI

THE MECHANISM OF AUTO-FINANCE

For a meaningful discussion of retained earnings, it is pertinent to analyse the mechanism and the factors influencing the accumulation of internal savings. The retained earnings are considered as a close reflection of a company's profits as these find their origin in the working of a company. From the profits after tax, a company usually segregates some of its net profits as reserves for specific purposes, distribute some profits in accordance with its established dividend policies and retains the remainder in the earned surplus account. The relationship between earnings, taxes and dividends is of utmost importance for finding the origin of retained earnings. For this, the rate of earnings, i.e. relationship of net profits to net worth, the impact of taxes and dividends must be worked out thoroughly. In the present chapter, detailed study has been made of the various facets of auto-finance as a means for financing development and modernisation of cotton textile

industry.

BUSINESS SAVING PROPENSITIES:

Business management uses two types of book-keeping items, i.e. 'surplus accounts and reserve accounts'. The surplus accounts are of two types- earned surplus or retained earnings account and capital surplus. The surplus account shows asset values that are not represented by claims of creditors and the capital account as represented by the contributions of share-holders. It is apt to fluctuate due to certain factors.

Earned and Capital Surplus:

Earned surplus is the accumulated amounts of such profits that remain undistributed as dividends. Such surplus is realized one- obtained from the circuit flow of working capital and has its source in the earnings of a business enterprise. It presumably indicates in part the past profitability of a business firm and the amount of earnings retained in the business or a surplus capital investment over and above the legal capitalization. Surplus is different from capitalization in the sense that it can be withdrawn from the firm at the discretion of Directors.[1]

Earned surplus provides the main source from which dividends are distributed. It may be used for absorbing losses and meeting certain charges like depreciation, etc., that must, necessarily, be estimated in advance. The earnings that are accumulated in the business and not required by it are free for distribution in the manner the management

---

1. William H. Husband & James C. Dockery, 'Modern Corporation Finance', p.495

elects.[1]

The unappropriated surplus, also termed as income re-invested in the business, is the total of the accumulated earnings allowed to remain in the business, which are not designated for any particular purpose. Although, it is considered to be desirable to assign surplus with some specific programme, and a portion of surplus is definitely tagged as being for that objective.[2]

Capital surplus is the other broad classification of surplus based on source. It is closely related to the 'capital account' and is used to exhibit changes in capital stock that can not be reflected so readily in the capital account statement because of book-keeping in terms of par value or stated value and other changes that are not related to the normal operations of the business firm.[2] It may arise in several ways and may be 'paid-in-surplus' or 'valuation surplus'. It may be used for various purposes- primarily to assure that operating losses, asset write downs or other developments of the kind will not recult in capital impairment and inability to pay dividends. It is worth noting that for all intents and purposes, capital surplus is a permanent part of net worth of a business firm and although permitted by the laws of some states, the declaration of dividends from capital surplus is not a wise policy.[3]

Surplus- Its Nature and Significance as Equity:

The term surplus, which found its origin with the accountants, has been considered as exhibiting the excess of net worth over the capital stock of a business concern.

---

1. Modern Corporation Finance, op.cit. p. 304.
2. Charles L. Parther, 'Financing Business Firms' Chap. VIII, p. 173.
3. Ibid.

A change with assets of a company might be the result of variations in liabilities or an increase in share capital or both or it may be the result of a company's operations. "Cash received from the sale of stock when invested in materials, processed and sold returned more or less than its original sum. This different sum was recorded among the assets, and when it was, the balance-sheet did not balance. Hence a 'balancing item' was invented and they called it surplus."[1] Apart from operating results and varying liabilities, an arbitrary asset revaluation also fluctuated surplus. This makes surplus a dependent variable and an extremely sensitive item. 'Within itself it had no independent powers by which it could be measured. It has become a financial catch- all, into which are thrown left overs, after all the balance sheet values are measured.'[2]

The variations, in surplus account caused by changing assets, liabilities, etc. are significant from the view point of financial policy and deserve thorough analysis. The analyst may regard changes in the surplus account from period to period as a statistical record, not only of managerial performance and achievement, but of policy as well. Such policies provide guide lines for managerial decisions affecting surplus itself and make it necessary to reduce this accounting compound to its basic elements.[3]

A deeper analysis of surplus reveals its nature distinctly. Surplus has its significance as an equity of shareholders. Viewed from this point the following observations concerning the nature of the surplus may be stated succinctly.[4]

(i) The surplus account is not offset by any specific assets but simply represents an equity of the shareholders in the assets

---

1. Taylor, W.B: 'Financial Policies of Business Enterprise.' Chap.XXII. 'Surplus & Dividend Policy', p. 511.
2 & 3. Ibid. p. 512.
4. W.H. Husband & James Dockeray,'Modern Corporation Finance', p.497.

as a whole;

(ii) A large surplus account may not necessarily mean a satisfactory financial position.

(iii) A surplus account does not necessarily mean that assets are in excess of current needs as of a given year; primarily it reflects growth of the stock-holders equity.

It would be obvious that surplus, at best, is simply an equity of the shareholders and not an asset in any sense of the word. Earnings of a company primarily help improving its current assets but the managerial decision may divest it into plant and other long-term investments instead. You can not tag a dollar- that is to say, once money goes into a business, the identity of its source is lost- such an understanding of surplus is essential for formulating a sound financial policy. It means that surplus itself does not fully inform the directors of the financial position of the company, of the results of operation and the economic soundness of the company.[1]

SOURCES AND CHARACTER OF SURPLUS:

Surplus is regarded as a device of financial policy and its disposition forms a part of the financial policies. For such an analysis the study of sources of surplus is inevitable. The sources and character of surplus determine partly the disposition of the surplus.

Presence of surplus may be attributed to certain transactions and adjustments which take place as a result of managerial decisions pertaining to arbitrary revaluations and disposal of earnings. Ordinarily, surplus

---

1. Modern Corporation Finance, op.cit. p. 496

is considered as a part of the permanent investment of a concern and is incapable of being distinguished from original investment for many purposes. In fact, surplus is simply a flow of additional value into the corporate estate, whatever be the source. An increase in the value of the real estate due to favourable environmental changes; presence of net earnings and additional investment in the firm by the owner represent the flow of additional value into the corporate estate that originates from without. This outside origin of the surplus is of the utmost importance. The value thus obtained is objective, it is the result of a bargain, a composite of value opinions other than these of the management. On the other hand, a surplus arising out of asset revaluation has its origin from within. There is the need to regard such a surplus most critically, 'for the value of it, management should assume the burden of proof.'[1]

Three different sources of receipts cause this flow of surplus into a firm. In the first place, a capital investment in various forms may give rise to it. Secondly, undistributed net profits that arise from business operations and certain other activities too may result in surplus. Lastly, surplus may find its origin in acts like these- consolidation of two or more companies; scaling down or reduction of debts and liabilities and the revaluation of assets.

NEED FOR RETAINING SURPLUS:

Presence of large surplus accounts in a company is an immense value to itself, to its shareholders and to the society as well. Growing

---

1. W.B. Taylor, 'Financial Policies of Business Enterprise'. p. 514

accumulated surplus of a company makes it an enduring entity, which is the primary duty of a management. Retention of surplus is regarded as a cost free source of capital for expansion purposes which enhances the credit standing of a company, helps retiring bonded indebtedness and provides a better equity position for borrowing purpose.

Retention of surplus is considered as an act of self insurance. It provides a cushion of safety. The 'cushion' or 'margins', whose presence is so comforting when unfortunate transactions or periods of slack business occur, are supplied by the earned surplus. The unappropriated surplus account also known as a general surplus account is in itself a reserve for all contingencies. But generally different portions of it are tapped, appropriated and earmarked as reserves for specific purposes. Transfer of surplus to various reserves accounts dissuades the directors from declaring dividends in such large amounts that working capital is depleted or the financial structure impaired.[1]

Surplus also helps in taking the advantage of profitable investment. Comparatively new and small companies rely frequently and almost entirely upon it for their long term capital needs. 'Irrespective of safety and profits the momentum of a going concern requires the infusion of new funds for meeting the fluctuation of business as well as for purposes of normal expansion.[2]

The growing accumulation of surplus to a reasonable extent benefits both the shareholders and the society as it improves the overall position of a company by yielding more and, being corporate savings, it increases national wealth by facilitating improvement of plants and encouraging adoption of technical advances. It also relieves the society from possible

1. Financial Policies of Business Enterprise. op.cit. p.514
2. William H. Husband & James C. Dockeray, 'Modern Corporation Finance.p.499.

confusion arising from failure and other financial embarrassment of business. Retention is an act of trust performance. Irrespective of the outcome, it is clear that the retention of earnings give rise to a form of involuntary investment by the stock-holders. The right to decision making of this sort is a prerogative of management having the support of legal sanction.[1]

RESERVES AND PROVISIONS:

A company has a prima-facie power to create reserves before declaring dividends. The articles of a company generally authorise the board of directors to set aside a reserve from the profits but the regulations of the company may also negativate this power. 'At the discretion of the directors these reserves may be applied for any purpose to which profits may be applied and pending such application the funds they represent may be used in the business or invested in the securities or obligation of the undertakings.[2] Being book-keeping items, these reserves do not affect assets and they are not reserves in the sense of something being held to meet a possible or certain future need.[3] In the past certain companies, in practice, described freely as reserves many different account balances whereas some, which were not so described, really represented reserves. It was held later on, that the term 'reserve' be used 'to denote amounts set aside out of profits and other surpluses which are not designated to meet any liability, contingency, commitment or diminution in value of assets known to exist as at the date of the balance sheet.[4] The unappropriated profits, have substantially the same character and serve the same purpose

1. Modern Corporation Finance. op.cit. 5th Edn., p. 499
2. Raymond J. Chambers, 'Financial Management- A study of the bases of financial decision in Business.' Chap. XV, p. 286.
3. Ibid.
4. Charles L. Perther, 'Financing Business Firms'. Chapter VIII, p. 175.

as reserves and may be regarded as part of the general reserve of a company.

In accounting practice, distinction has got to be drawn between decisions of undistributed profits and the charges against profits and appropriation of profits for distribution. The term provision is used for denoting the charges against profits and appropriation of profits. Therefore, the amounts charges against profits or set-aside in the process of computing distributable profits, on account of liabilities, diminution of assets values and contingencies which are expected to arise but the extent of which can only be estimated, may be regarded as provisions.[1] A real element of reserves is present in provisions if these exceed the reasonable expetations of the liability that is likely to arise and the diminution in the values.

It follows from the aforesaid discussions that reserves are business savings which are an outcome of the financial prudence of company management whereas provisions owe their existence to legal necessity. It is the prime responsibility of a company management to properly distinguish between provisions and reserves and not to confuse reserves for provisions and vice-versa, as was the case in the past when the two terms were not used in a rigid sense.

THE PURPOSE OF RESERVES:

Creation of reserves out of a company's earnings constitutes a vital step both in the determination and management of income. The significance of adopting and applying reserve and surplus policies would be evident from the purpose which underlie such policies. Accurate determination of operating results is considered as the first and foremost purpose of reserve policies. The second fundamental purpose of such reserve policies is to provide assistance to the general financial policies of a company management. The

---

1. Financial Policies of Business Enterprise. op.cit. Ch.XX,p.472.

operators of a business must continually test themselves not only in order to know if a profit is being obtained, but to make certain that the business estate remains intact.[1]

The primary function of financial policies in a broad sense, is the determination and application of those principles of financial management by which the capital contributions of owners and creditors are maintained and caused to yield normal rate of return. Viewed from this point, "reserve policy can be identified as supplementary to financial policies and as complimentary, even, to the set of financial principles that guide profit administration.[2] The profit administration involves certain steps. First of all, as we have noted earlier, accurate income is to be ascertained. In the second place, reserves are to be deducted in accordance with the decisions of management. This in itself is a corollary to the first step and in the last, a decision is to be reached with respect to the use of the remainder. In other words, surplus and dividend policies constitute the third and final step in profit administration. The policies on reserves surplus and dividends are quite inter-dependent and intermingle with each other. Therefore, reference must be had to the rest of the steps while considering anyone of these steps of profit management.

The assistance which reserve policies provide to general financial policies may be considered under the following heads: (i) The functional analysis of the business and its operations; (ii) the provisions for uncertainties and (iii) the planning of debt retirement.

(i) Reserves and Functional Analysis:

Generally, the reserves created by a company bear some relationship and owe their existence to one of the function of the firm that sets it up.

1. Financial Policies of Business Enterprise'. Ch. XX, p. 472
2. Ibid.

At times specific labels may not be used for reserves that may reveal the function which these are supposed to perform. The significance of a particular reserve depends on the fact, whether or not, the function to which the reserve relates is a major activity in the firm's operations. Sometimes a particular function may assume so vital a role in the operations of a business that making provision for it may be elevated to the status of a major managerial function, the importance of reserve policy correspondingly magnified and reserves themselves advanced to high rank among the devices of effective control.[1] Naturally, in such a case, all other functions become subordinate to this particular function and the reserve pertaining to it becomes the index of functional performance of the business.

(ii) Provision for Uncertainties:

With a view to assist general financial policies, different reserves are created to meet the uncertainties involved in any value which the future must confirm. The valuation reserves, which are best represented by reserves for depreciation and bad debts etc. are so called because they appear among the assets of a company and represent attempt to forecast, adjust or change the existing values of particular assets. The distinctive characteristic of these reserves is that, while they appear as adjustments to the balance sheets, they made their way to these assets via the operating statement. All are deductions from income. All, therefore, have their origin in the management and determination of income.[2] The items falling under valuation reserves constitute a legitimate charge against operating income as these represent current cost of doing business and these are used to formally recognize the expenses that can not be determined accurately. The major purpose of such reserve is to replace or supplant the value that is departing

1&2. 'Financial Policies of Business Enterprise'. Chap. XX, p. 474 & 477.

from the original investment.

On the other hand, we have proprietary reserve accounts, also known as net worth reserve or surplus reserve accounts, which are used to recognize elements of financial policy and which relate to the retirement of long-term debt, self insurance, replacement of plants and other contingencies. Some of these reserves are in effect an earmarking of balance sheet surplus and a reservation of profits. Their purpose is to meet uncertainties and contingencies which may never arise, but which would reduce the value of the capital if they did.[1]

The nature of proprietory reserve accounts differs fundamentally from the valuation reserves. As against the valuation reserves which recognize uncertain expenses and represent cost of doing business, the proprietary reserve accounts are common expressions of financial policy and are the outgrowth of net income and its later accumulation. 'Whatever the reason for the action, any appropriation of surplus to a proprietary reserve serves both as an announcement of policy and as a temporary removal of surplus from availability for the declaration of divdends.[2] The creation of various proprietary reserve accounts serve different purpose and help strengthening the current position, stabilizing dividend policy and improving and procuring new assets. 'The existence of a separate reserve account publicly announces the policy of permanent retention of assets on a legal as well as an economic basis.'[3]

This class of reserves represents the direct setting aside of a portion of net profits or operating surplus in favour of the residual owners of the firm. Hence these are also known as 'surplus reserves'. "The income

---

1. Financial Policies of Business Enterprise. op.cit. Ch.XXV,p.477
2. 'Modern Corporation Finance', op.cit. Ch.XXV pp.507-508.
3. Ibid.

thus transferred to the balance sheet becomes additional assets, assets which a competent management will so employ that the net worth of the concern is permanently increased".[1]

Certain other reserves or allocations deal with liabilities whose amounts and time of payment are uncertain. These reserves are usually provided to care for liabilities arising out of current operations. 'Each of these reserves, it will be noted, is essentially a current liability, a sum which is owed and which the firm expects to pay during the next accounting period; it would have been paid, the inference is, during the period being reported had the amount been definitely known. The term reserve is attached to these liabilities because the amount can not be definitely ascertained at the time when the reservations are made. The artificiality of the final period, when the accounts break off the continuity of operations that characterizes the going concern is responsible for liability reserve accounting."[2] The liability reserve differs from asset reserves in that the later will not presently require the paying ofcash whereas the liability reserve anticipates an early disbursement of liquid capital.

(iii) Debt Retirement:

While planning for debt retirement, a company management may elect to retire its debt permanently either out of earnings or by some other means. Though, a company management usually enjoys complete freedom in the use of retained earnings, debt contracts may require the creation of sinking fund reserve accounts or retention of all or part of the profit after tax under certain circumstances. When financing with term loans, a company management may have to accept restrictions on dividend payments

---

1. 'Financial Policies of Business Enterprise'. Chap. XX, p. 467.
2. Ibid, p. 568-69.

and failure to stick to certain financial standards set by debt agreements, may bind the company to retain profits in the business. Sinking fund reserves are created for retiring debts and a company management may deem it proper to fund them, even without contractual obligation. Funds that are appropriated to retire debt, are derived from the net profits of a company.

RESERVE FUNDS:

Sometimes the management of a company creates proprietary reserve accounts and funds them. This may prove to be a dangerous policy. "The term 'reserve fund' is frequently used of specific reserves which are not represented by identifiable assets acquired for the specific purpose. Professional bodies have, however, recommended that 'reserve fund' should be used only where an investment has been made in readily negotiable assets to accumulate funds for purpose stipulated.[1]

Funding of reserves isolates corporate assets to finance specific things and reduces cash available for current financing. Creation of too many funded reserve accounts is likely to jeopardise the economic life of a business firm. 'Such a policy could force a corporation to borrow when it would have had sufficient assets to finance current needs if they were not tied up in bank deposits and short-term investments.'[2]

Generally, it is more profitable for a business to re-invest funds inside rather than invest them in outside securities. Such reinvestment may be either in fixed or current assets or both and if funds are needed for specified purposes, it may be possible only at the cost of disturbing the working capital.

---

1. Financial Management- A study of the bases of Financial Decisions in Business. Chap. XV, p. 285.op.cit.
2. Financing Business Firms. op.cit. Cha. 8, p. 175.

DEPRECIATION:

These days the concept of depreciation has assumed great significance as a vital tool in the management thinking and the level of depreciation flows has a number of very practical implications. It is very closely and directly associated with several types of business decisions that are vital to the very existence of a business. Such decisions relate to:[1]

(i) Determination and distribution of profits,

(ii) Determination of income-tax liability,

(iii) Comparison of the relative economy of services,

(iv) Valuation for various purposes,

(v) Establishing prices of products and services,

(vi) Analysis of investment securities.

While computing business profits some allowance has to be made for the capital consumed in the process of earning profits. From the accounting view point depreciation allowance is an inescapable element in the concept of business profits and is a necessary charge that must be entered before there can be said to be a taxable profit. "The cost of the asset is a prepaid expense to be apportioned over the life of the asset in some systematic manner and, therefore, depreciation is simply a process of allocation not a valuation".[2]

DEPRECIATION- A SOURCE OF INTERNAL FINANCE:

The true nature of depreciation has invited a lot of discussion in the past over the question, whether or not depreciation constitutes a source of funds? Depreciation is considered to be a source of funds as depreciation expense is included in the price of goods and services of a company. Thus,

---

1. Lt. S.N. Ghoshal, 'The C.A. June, 1963, p. 507 'Some Fresh Thoughts on Depreciation'.
2. Ibid. p. 507.

in the form of depreciation a company sells its fixed assets piece-meal which results in an increase of funds, thereby generating a source of funds.[1] On the contrary there are academicians, who maintain that depreciation is not strictly speaking, a source of funds. 'It is only a special amount that is siphoned out of the stream of revenues received by the company. Unlike wages and other payments to outsiders, however, depreciation charges are in effect paid to the company itself, assuming that something remains after the outside commitments have been discharged. Since depreciation charges are sizeable amounts of money, they constitute a major body of funds that the management can work with.[2] Thus, it is clear that depreciation allowances make a portion of the revenue stream that is freely available for the desired use by the management of a company. Viewed from this point, the depreciation policy is a vital area of financial decisions.

The primary function of depreciation is to periodically reflect consumption of asset services. It also provides a means whereby a company may recover tax free the money it has invested in depreciable assets. "These recovered funds are rarely accumulated in a true replacement reserves; rather they are used for whatever purpose a company chooses, including the purchase of currently needed assets."[3]

Depreciation is one of the two major sources of internal financing. This component of corporate saving plays an important role in company finance. Companies do not distribute whole of the net income earned by them in any given year. Generally, a portion of this net income remains undistributed which is termed as net corporate saving. When depreciation accruals are

---

1. Earnest W.Walker,'Essentials of Financial Management'Ch.14, p.139
2. Robert Lindsay & Arnold W. Sametz,'An Analytical Approach to Financial Management- part III, Ch.10, p. 168.
3. Tuck Bulletin 23, February,1960, 'The Many Sides of Depreciation,pp.1-3 (Hanover, N.H.Dartmouth College).

added to it, we have what is termed as, gross corporate savings.[1] In large companies, the depreciation component of gross saving is usually much greater than the retained income. The reason for this is that depreciation accruals are made every year and these are characterised by remarkable stability, whereas this is not the case with retained earnings. Not only this, the depreciation series may also exhibit even an upward trend because of the enormous growth of depreciable fixed assets owned by large companies.

But it has been considered as extremely misleading to define setting aside of depreciation by business as a means of savings to replace plant and equipment. Under accrual accounting, depreciation is not a valuation process nor a means of capturing replacement prices from customers.[2] A similar expression has been made by May, 'It is a gross error to assume that it is a part of the function of accounting to ensure by depreciation charges or otherwise, the return on the investment that has been made in the entity.'[3] On the contrary there are others who say that good accounting policy seems to dictate that the purpose of the depreciation charge, after all, is to recover the money paid from asset already constructed.

It is contended that the outlook of accounting records is to the past. 'Depreciation charges refer to an expenditure which has taken place and are merely a special method of writing history.'[4] As against the outlook of accounting records the problem of replacement, which is not the purpose of depreciation, require an outlook to the future. The accountant's use of depreciation, merely a method of recording a cost-

---

1. Taylor, W.E. Financial Policies of Business Enterprise. op.cit. p.469-70
2. Ibid, p. 473
3. Tandon, P.L., The Role of Depreciation, op.cit. p. 372
4. Ibid, p. 373.

ensures that no backward glance to a past expenditure which is over and done with can influence the rational consideration of a new decision on capital investment.

Consequently, there are suggestions to abolish the notion that depreciation has anything to do with replacement. From a welfare point of view we should not want our capital replaced from year to year. Rather we want it changed as our preference change. From a productivity point of view, we want our capital improved not replaced.

Apart from provisions such as taxes, bad debts and depreciation discussed here business savings are made for expansion and development. This is in fact an appropriation of surplus. The volume of the business savings which in a sense are the real savings depends upon the dividend policy and a host of other factors. The geneses of these savings are explained in the following paragraphs.

PROFIT AND BUSINESS SAVINGS:

It is obvious that the relation between profit and business saving is a very close one. Profit is the source of business saving; indeed it is the source of much of personal saving also. It is the most fundamental but not the only determinant of business saving. Other factors determining the savings of corporations are in many respects distinct from those determining the savings of unincorporated enterprises. Even where the same factors are common to both- e.g., net income, business outlook, etc- the way these factors operate is again distinct.

In the case of unincorporated enterprises profits minus consumption expenditure equal saving.[1] But in the case of corporations saving is

1. George S. Katona, Psychological Analysis of Economic Behaviour, McGraw Hill, New York 1 1.

influenced by consumption requirements only partly, and that too, indirectly. The net profit of a corporation is disbursed between dividends and reserves, which are nothing but accumulated savings. It is the former (dividends) to which the influence of consumption requirements could be traced.[1] The disbursement itself is made according to the corporate financial policy, bearing on the questions of distribution and retention. This policy is governed by a number of factors which may be grouped to form two distinct types of forces. These are the forces of the shareholder's pressure for distribution and the management's pressure for retention. In this context corporate financial policy is a result of the mutual balancing of these two forces.[2]

After having provided for taxation from profits before taxes, the net profit is available for dividend distribution. In determining the dividend action, the Board has to bear in mind that the capital is not impaired. Subject to this, upper limit, the Board of Directors decide the size and type of dividend. Dividends may be distributed in the form of bonus shares or in cash. In the latter case, the management may first decide the size of dividends by laying emphasis upon the stability of the volume of dividends or it may make dividends competitive with other units and permit the volume of dividends to follow earnings. On the other hand, sometimes the management may be required to first decide- how much is to be retained instead of deciding dividends. Such a decision may be forced by the pressing needs for liquidating funds, the debt redemption and the need for off-setting an inadequate depreciation allowance or re-investing earnings. But the dividend action of a Board is mostly guided by the

---

1. Sergei P. Dobrovolsky, Corporate Income Retention 1915-43 (National Bureau of Economic Research, Financial Research Program Studies in Business Financing, New York 1951), pp. 35-36.
2. Ibid. pp 36-37.

volume to be paid. The Board first ponders over the need for any change in the size of dividend. If some adjustment be inevitable, the degree of it is considered. In the interest of stable dividends, generally management is dominated by inertia and conservatism as substantial cut in the dividend during lean years becomes a must. The profits after tax provide the base for deciding the change and extent of a dividend action and the actual decision as an outcome of the target pay out ratio based on the need for cash flow, shareholders preferences and the speed of adjustment which is a stabilising factor in dividends. An important study by John Linter[1] into the 'Distribution of income of corporations among dividends, retained earnings and taxes', reveals that companies follow definite policy as to the target ratio of dividends to current earnings. Companies also have flexible but well defined standards of adaptations resultantly, the relationship between existing dividend rate and target pay out was found to be a much more generally significant and stronger consideration in dividend determination. In other words, there was a strong tendency to raise dividends despite reduction of profits, as long as the actual pay out ratio was still short of target ratio and, therefore, the dividends did not fully reflect any sharp but temporary savings in profits.

In a period of rising profits, a company's needs for liquid assets become most pressing, due mainly to profitable opportunities for re-investment or expansion. This will also be the time when the stable pay out policy will generate a larger volume of earnings after paying dividends. Thus a source of finance springs up almost spontaneously during a period

---

1. Linter J. "Distribution of Income of Corporations among Dividends, Retained Earnings, and Taxes". The American Economic Review. Papers and Proceedings, May 1956, p. 97.

of rising profits as the dividends increase comparatively slowly and retained earnings climb sharply. To repeat- for the sake of emphasis- Taxes effect net corporate savings through their impact on the volume of net earnings, which in turn determine the size of dividend. Thus retention of earnings is an important bye-product of a relatively stable payout ratio.

The practice of re-investment of earnings takes two distinct forms. The one is that of capitalizing reserves and funds and the issue of bonus shares. A company may either issue stock dividends as and when necessary or it may periodically capitalize the reserves and accumulated funds. Secondly, a company even without capitalizing resources and funds utilizes these, which precisely means ploughing back of profits. Stock dividends reduce the amount of reserves and retain the funds which would have, otherwise, been distributed as cash dividends. Under the second method, i.e. retention of profits without resort to capitalization of profits, re-investment takes place without any corresponding increase in the amount of paid-up capital. This help increase earnings per share. The reserves etc. of a company may be used for internal purposes. The time lag element in taxation permits its constant use for any purpose, of course due regard being paid to liquidity needs. Similarly, depreciation reserves too, particularly, in a period of depression leave large surplus in the business to be used for the desired use, as the decreasing prices make replacement easier while depreciation charges remain constant.[1]

---

1. Srivastava S.S.: Extent of Auto-financing in Major Industries. The Indian Journal of Economics, October, 1960, p.188.

PURPOSE OF RETENTION:

The question of wisdom of retention of earnings has given rise to divergent views by economists and businessmen. Much that has been said brings to the fore-front the anti-thesis between the corporation and the shareholders.[1] Hence, the management, with whom lies the discretion, must consider the ultimate good of the company. Retention of earnings is one of the major sources for net investment in fixed assets. Mostly profits are retained in a business with a view to expanding business, redeem debts, equalize dividends and withstand depression and maintain wages. In retaining earnings, a company management considers the need and opportune moment for expansion. Further, it has also to see if the firm has reached its optimum size. Financing expansion through retention helps protecting the existing managerial control. It avoids higher costs, negotiations and the need to make specific commitments pertaining to the use of funds, which are generally entailed in external financing and debt management. If a company can conveniently manage for contemplated finances from within, it would avoid outside financing. A company, with high profitability and a management which persists on carrying on expansion programme, is easily tempted to resort to internal sources and the share-holders too prefer it.

But the financing of expansion through retention is generally criticised as the wisdom of the expansion scheme is exclusively decided upon by the management and it escapes the test of the share market and, therefore, its worth may be of doubtful validity. The justification and the extent of re-investment of earnings depend on its yield comparable to the return in alternative investment opportunities and the marginal

---

1. Suryanarayan, S. "Corporate Finance" the C.A. July 1957, p. 17.

rate of return on these re-investments being equal to some pre-determined minimum.

Retirement of debts may also induce the management of a company to retain a portion of profits. It involves a well thought out plan. The retention of earnings in the long-run may provide, gradually, a sizable amount of additional capital which may be used for this purpose. The gradual retirement of prior obligations from earnings may be relatively painless for shareholders, if the assets acquired with these obligations earn substantially more and lead to an ideal capital structure and increasing safety for ordinary shareholders. 'The profits of trading on equity should be used not for dividends but to increase financial strength. Amounts retained should increase as the proportion of senior securities in the capital structure increases.'[1] Profits are also retained for equalizing dividends which implies the fallacy of equating the equity capital to the position of preference capital. The ploughed back profits should always be represented by liquid assets so that these are readily available for equalizing dividends in the lean years. Similarly, if the re-invested profits are kept in easily realizable liquid assets, these can serve their purpose of withstanding depression or maintaing wages in a period of falling prices, well.

PLOUGH BACK GUIDES:

The practice of auto-financing and policies pertaining to it have a great say in the formulation of a company's capital expenditure budget. This is evident from the significant role that retained earnings

---

1. Guthman and Dougall- 'Corporate Financial Policy', Chapter 26,p.535.

play as a vital source of capital funds. When a company management thinks that a substantial re-investment of earnings may prove to be a more profitable proposition than to merely distribute it as dividends, it is generally faced with a situation where it has got to resolve the conflict between retention and growth versus payment of maximum cash dividends. In resolving this conflict between how much to retain and what portion of net profits to be distributed, certain guides have been suggested.[1]

The cost of capital rate provides the first guide. A company, following the capital rationing plan faithfully, retains earnings (upto the limit of stock-holders rebellion) as long as they can be invested at a return higher than the firm's cost of capital. It pays out earnings that can not be invested internally to cross this cost of capital rate. Another guide is to be found in the theory which treats dividend payments by a company in the nature of interest income. If a company's plough-back policy reflects this theory then retained earnings are nothing but a highly volatile residual left after paying stable dividends out of fluctuating earnings. The third and final guide takes a long run view of an average minimum amount of retention that would rate a prior claim on earnings over an integral business cycle. The view is based on the notion that a certain percentage of earnings should be held back for contingencies and for growth.

COST OF CAPITAL- WITH REFERENCE TO THE RE-INVESTMENT OF EARNINGS:

Profits that are ploughed back into the company also entail some cost. But little do people believe that it is so. A wrong notion

1. Kuchhal, S.C., 'Cost of Capital and Corporate Capital Structure', The Indian Journal of Commerce, Conference Number, December, 1967, p. 7.

is prevalent that retention of earnings is a cost free source of funds as the company is an entity separate from its shareholders. The cost of re-investment earnings to the shareholders is termed as opportunity cost, 'which is the rate of return that they can obtain by investing the after tax dividends in alternative opportunities of equal quality.'[1] In calculating the 'opportunity cost' one has to reckon with the need for adjusting the market capitalization rate for shareholders tax liability. This is reduced to the following formula:

$$\frac{(1 - T_i)\ D}{(1 - T_c)\ P}$$

where, T_i = Marginal income tax; T_c = capital gains tax; D= dividends and P = market price of a share. Given the rate of marginal income tax and capital gains tax, the required rate of return for a shareholder can be calculated, that would leave an amount equal to net dividend after tax and which would enable him to be as well off as he would be under the rights offering. This reveals that the cost of retained earnings is a function of personal income tax rates of the shareholders of a firm.

The above formula is based on due consideration of the personal income tax liability of a shareholder. Some authorities do not subscribe to it and they maintain that since the cost of retained earnings is the opportunity cost to the company and not to the shareholders, the cost of retained earnings is the same as the market rate of capitalization for the equity shares.

The three broad approaches of plough back policies referred to earlier may be modified by the cost of capital through the effects that

---

1. Kuchhal, S.C. 'Cost of Capital and Corporate Capital Structure', The Indian Journal of Commerce, Conference Number, Dec.1967, p. 7.

ploughing back policy has upon the market price of companies share. The cost of capital of a company is likely to go high as a result of the depressing effect of the retention of earnings on the price of the shares. It is also evident from the fact that in the long-run, on the average, the securities market has substantially discounted the value of retained earnings. One may conceive of an optimum ratio of retained earnings from the view point of the effect of retention upon market price and cost of capital. Paying all earnings out in dividends connotes impoverished opportunities for internal investment, no plan for growth and inadequate contingency reserves.[1] Possibility of speculative gain makes ploughing back of profits quite profitable for relatively new and smaller companies. Large companies with diffused ownership pay liberal dividends as they tend to assume social responsibility for dividends. Such companies are not entirely dependent on high retained earnings for growth as they are capable of having easy access to capital markets.

FACTORS AFFECTING INCOME RETENTION:

Though, the Board of Directors possess an absolute power in deciding a dividend action, they can not completely disregard the wishes of majority of shareholders in this respect. Generally shareholders prefer having stable dividends, bearing sufficient margin for retention during the period of rising profits. But they also desire to share a part in the increased profits. The management itself is aware of the value of a past stable dividend record in floating new shares. Therefore, in a company that is growing fast, the shareholders are apt to bring pressure on management to distribute larger portion of profits, no matter,

1. Joel Dean, 'Capital Budgeting'. pp. 39-42.

however strong preference of the management for retaining earnings. The pressure on management for distribution depends to a great extent on the number and financial status of shareholders.

LEGISLATIVE MEASURES OF MANAGEMENT OF EARNINGS:

While considering the disposal of earnings the basic fact that management must take into account is to be sure that realised earnings are available for distribution and that their payment will not impair the paid-in capital of the firm. In deciding this question directors are apt to examine carefully the legal aspects involved in it.

LEGAL RESTRICTIONS ON DIVIDEND DISTRIBUTION:

Generally certain restrictions are placed upon the payment of dividend by the law that regulates company affairs. It is chiefly, for the purpose of protecting creditors against the depletion of the surplus of company assets over debt contributed by shareholders. The shareholders of a company enjoy the privilege of limited liability for the debts of the company. Hence, the necessary precaution has to be taken and the law takes the reasonable position that distribution of corporate assets by the dividend route must be limited so that corporate debt paying capacity will be preserved.[1] Similarly, these restrictions also protect the interests of preference shareholders of a company. The various provisions of law restricting or governing dividend distribution may also be termed as basic rules. In United States, three such different basic rules are adopted by various statutes and common laws.[2] These rules, though sound quite different from each other, have much in common and may not differ from each other in a significant manner. These rules are: (i) the surplus

1. Raymond, P.K. Corporate Financial Management, p. 582
2. Ibid, p. 584.

rule, which restricts dividend payments to the extent of available surplus only; (ii) the capital impairment rule which provides that no dividend may be paid unless the value of the assets after the payment, exceeds the legal capital as well as liabilities. In other words, no dividendsmay be paid if the capital has been impaired or if the payment will cause it and lastly, the insolvency rule which provides that dividends may not be paid if the company is insolvent or when the payment will cause it to be so, that is create an excess of liabilities over assets. It is so because declaration of a cash dividend creates an immediate obligation on the company to pay.

In India, the Statutory provisions of the law expressly provide that, no dividend may be declared or paid except out of the profits of a company or out of funds provided for the purpose by the central or State government. (Section 205(1). The profits may also be capital one, which may be used for paying dividends subject to the provisions of a company's articles and provided these are not transferred by the directors to a capital reserve. Similarly, premiums realised on the issue of shares, which is a capital profit, and profits transferred to a capital redemption reserve account on the repayment of redeemable preference shares capital can not in any case be used for declaring a cash dividend, though these may be used for issuing bonus shares.

The above mentioned provisions of Indian Companies Act with respect to the distribution of dividends conform to and contain elements of the surplus rule and the capital impairment rule as was mentioned above. As a matter of fact these two basic rules governing dividend distribution are much the same. The provision that dividends may be paid out of profits is a part of surplus rule. But an exception has been provided to this rule.

Dividends may also be permitted if the funds are provided by the Government for this purpose. This virtually means that even in the absence of surplus, distribution of dividends would be legally made if funds are so provided.

The Indian Companies Act 1956, also prevents payment of any dividend out of capital as it would mean the payment of dividend out of the assets acquired with the help of paid-up capital of the company. The reason why law prohibits the payment of dividend out of capital are obvious. The capital provided by the shareholders of a company constitutes the funds that can be used to pay to the creditors in case the company is being wound-up. Any part of such capital contribution can not be returned to the shareholders, as it would reduce the funds available for creditors. If the dividends are paid out of capital, this would be in contravention to the Act and amount to a voluntary reduction of capital without the leave of the court. Thus, it is clear that the Indian Companies Act also provides for the capital impairment rule in deciding the legality of a dividend payment by a company.

The net profits of a company are the surplus of current income for a given period over current expenditure, after providing for the expired capital originally sunk in fixed assets, i.e. the diminution in the value of assets. On the other hand, 'divisible profits' include all profits that can be legally distributed to the shareholders in the form of dividends. This makes it clear that profits other than trading profits are also available for payment as dividends. In the past, however, the Companies Act was not clear about the divisible profits as it lacked adequate statutory provisions regarding the manner of computation of net

or true profits. In such circumstances, two principles were followed in determining the divisible profits[1], viz. (i) that in no circumstance is a dividend paid out of capital; and (ii) that in every case the requirements of the company's Memorandum and Articles are faithfully complied with.

SUMMARY AND CONCLUSION:

Corporate savings are made for variety of motives. After setting aside a part of the profit for tax provision, depreciation and for bad debts, a portion is reserved for development and expansion which enhances the future profitability of business. The belief that corporate management involves certain basic qualities of trusteeship originates mainly from this practice of auto-financing as it is of utmost importance for the investors as well as in the larger public interest. While retaining earnings the shareholders are not only made to sacrifice their present dividends for the sake of future returns- not entirely without the risk involved, but also they are deprived of their choicest investment opportunities. In managing the retained earnings or re-investing these funds, under the delegation of authority, a company management is supposed to act on behalf of its share holders. Herein lies the need for the management to act wisely and be cautious of its role in acting for the welfare of the owners. Sometimes a company management, guided by false notions, may consider the earnings as belonging to the company only and does not think these to be comparable to the capital invested. This, of course, would be a mistaken view. "Business integrity demands, however, an equal accounting for funds, irrespective of the source, with due recognition of the shareholders interests.[2]

---

1. Gupta, N.R. 'Published Accounts'. 1965 Edn. p. 145.
2. Charles L. Parthen: "Financing Business Firms", Chapt. 8, pp. 184-85.

Many corporations limit dividends and retain earnings in order to finance planned expansions. Large corporations with a national following of investors ordinarily have access to other sources of funds, but they find retained earnings a particularly advantageous source. For one thing, there is no pressure to pay interest or dividends on surplus. On the contrary, if the expansion is successful, the return on the retained earnings will accrue to the benefit of the shareholders.

Small corporations often have no alternative other than to finance a large part of their growth through the retention of earnings. Small companies find themselves excluded from the organised capital market by the factor of their size. The security markets are not geared to the floatation of small issues at reasonable expense. The other alternative is the banking system; but here, limitations of term of loan and legal lending limits are handicaps. The best, and often the only solution is to grow from within by restricting dividend payments. Further analysis of this policy with reference to the cotton textile industry is presented in the next Chapter.

---oOoo---

CHAPTER - VII

RETAINED EARNINGS AND FINANCING OF THE COTTON TEXTILE INDUSTRY

The accumulation of internal resources in cotton textile industries is governed by almost all the factors enumerated in the preceding chapter. But each industry, and as a matter of fact, each company has some special circumstances that determine the volume and form of internal savings. I have already explained in Chapter-V the influence of adverse factors on the earning ability and saving capacity of cotton textile industry. The industry does not receive any special fiscal treatment from the government. Its saving ability has been effected by high rates of taxes on the one hand and dividend policy followed by corporate management on the other hand. In connection with financing of modernisation through internal sources, the investment management of these savings is yet another factor. It is not the absolute amount of saving but their use for financing expansion that is relevant to this study.

IMPACT OF FISCAL POLICY ON THE ACCUMULATION OF SAVINGS:

It is true that the basic factor governing the internal savings is the profitability of the industry, but the ability and desire to save is also effected by corporate taxes.

Corporate income taxes are paid out of the net income of the corporation. To the extent the taxes are paid, the distributed as well as retained profits are reduced. Where taxation policy is neutral in the distribution and retention of profits, the corporate management is free to judiciously allot its funds.

Appropriate changes in the corporation tax to induce private investment include (a) reduction in the corporation tax (b) accelerated depreciation allowance and (c) an investment allowance on credit. Thus, with a view to inspire private investment, especially to encourage the formation of new business units, the Government of India has given a large number of tax concessions to private investment. For example, under Section 15O of the Income Tax Act, new ventures are given a tax holiday for five years and profits upto 6 per cent of the capital employed are exempted from both income tax and super tax. Under Section 10(2)(VI of the Act, new Companies set up after 31st March, 1954, are allowed to deduct 25 per cent of the actual investment towards depreciation of plant and machinery. Under Section 56 A of the Income Tax, dividends received from companies engaged in certain specific industries are exempted from super-tax; for inter corporate investment in these industries. Development allowances and rebate are extended to established concerns. The tax concession must have helped the formation of new concerns and expansion of existing enterprises but under pressure of high

corporation tax and super-profit tax, tax provision as percentage of profit before tax increased from 39 per cent in 1960 to 50.6 per cent in 1962. Due to high tax provision, the profit after tax as percentage to net worth declined from 9.6 per cent in 1951 to 6.8 per cent in 1953. Again under heavy pressure of super profit tax imposed in 1961, the profit after tax as percentage to net worth declined from 10.9 per cent in 1960 to 9 per cent in 1962.

TABLE - LXX

TAX PROVISION AS PERCENTAGE OF PROFITS BEFORE TAX

YEAR	Cotton Textile Industry	All Industries
1960-61	34.5	38.6
1961-62	41.6	43.7
1962-63	54.6	52.3
1963-64	49.7	51.0
1964-65	46.0	50.5
1965-66	81.1	51.0
1966-67	53.5	47.4
1967-68	68.3	48.7
Percentage Increase 1960-68	98.0	26.2

NOTE: Figures pertain to 276 cotton mill companies and 1501 total companies.

SOURCE: R.B.I. Bulletins, Dec. 1967, and Oct. 1970.

A perusal of the above table reveals that in the Indian Cotton Textile industry the tax provision as per centage of profits before tax was 34.5 which as a result of sharp rise in the subsequent years reached 81.1 per cent in 1965-66 i.e. an increase by about 135 per cent. In the following year 1966-67, the percentage declined to 53.5 but again

increased considerably and reached 68.3 per cent in 1967-68. In case of all other industries the table[1] reveals that in 1960-61, the tax provision was 38.6 per cent which increased to only 48.7 per cent in 1967-68.

The comparative study regarding tax provision between cotton textile industry and all other industries brings forth that in 1967-68 the tax provision in case of all other industries increased by 26.2 per cent over the 1960-61 level whereas during the same period the increase in case of cotton textile industry was by 98.0 per cent. As a result of considerable difference in the increase of tax provision, the provision for 1960-61 in the textile industry which was less than all other industries by 12.2 per cent reversed and became more than all other industries by a margin of 60.8 per cent in 1967-68.

Whereas high rates of taxes and increasing cost of assets encourage the accumulation of savings for specific provisions, they erode the savings set for improvement. In this respect a study of the Table- LXXII gives very useful results.

The table reveals a considerable decrease in the profits during the period 1962-68, but there has been a less than proportionate decrease in tax provisions. Further, it shows that the Development Reserve and Depreciation funds have persistently increased, mainly at the cost of General Reserve. This is due to the fact that corporate income tax does not strike important source of internal financing represented by depreciation. Over the seven year period- 1962-68, covered in the table, accruals to Depreciation Reserve amounted to Rs. 9.5 crores against the net addition of Rs. 9.0 crores for tax provision. Generally,

1. Table- LXXI.

TABLE-LXXI

TAXATION, DISTRIBUTION AND RETAINED PROFIT AND GROSS FIXED ASSETS FORMATION IN THE COTTON TEXTILE INDUSTRY

YEAR	Profit Before Tax	Tax Provision	Distributed Profit	Depreciation Provision	Development Reserve	Profit After Tax	Capital Reserve	Other Reserves	GROSS FIXED ASSETS
1962	20.5	45.3	9.2	3.9	30.2	7.5	3.3	16.7	10.6
1963	-40.5	-22.0	-13.5	6.0	24.5	-53.7	3.8	0.8	11.2
1964	13.7	3.5	10.0	32.8	25.4	26.0	-0.9	1.9	11.3
1965	4.2	-3.6	3.2	11.9	21.1	11.9	0.2	0.6	10.1
1966	-36.0	-22.5	-15.6	- 4.3	10.1	-84.5	8.2	-12.4	9.5
1967	109.4	38.1	4.2	5.9	10.8	416.5	1.8	-15.0	10.6
1968	-38.3	-21.4	- 5.6	2.8	10.0	-57.9	-4.5	-22.2	7.2
ANNUAL AVERAGE RATE OF GROWTH									
1962-65	- 0.5	5.8	2.2	13.7	25.5	- 2.1	1.6	5.0	10.8
1966-68	5.0	-1.9	-5.0	1.5	10.3	91.4	1.8	-16.5	9.1

SOURCE: R.B.I. BULLETINS, DEC. 1967 and OCTOBER 1970.

NB: Percentage increase (+) or Decrease (-) per annum in profitability.

both tax provision and Depreciation Fund move together. When the income tax burden becomes excessive, depreciation fund increases with much consistency. Such accruals to the fund are not admitted by the Income-tax authorities over and above the book value of any asset. But the management regards depreciation in terms of replacement of values rather than merely accounting for the investment originally committed to its care.

The annual increment in the General Reserve or free Reserve is residual in the sense that it accumulates after the appropriation of profits. It bears the burden of taxes, depreciation provisions and distributed profits. The table thus shows that in the years when the profit after tax has declined and the distributed profits did not share this burden, the addition to the General Reserve has diminished. Besides, it is estimated that on account of consistently increasing prices of assets, the General Reserve has been used to the extent of two-and-a-half time of the depreciation funds to preserve intact the capital invested in depreciable assets. The General Reserve has thus served as a sort of replacement fund for the cost of replaced equipment over and above its original cost. While this is equivalent of new investment, it is probable that it may not forge any addition in capacity.

Free reserve is an especially important source of funds for business expansion. The willingness of business management to undertake a programme of expansion largely depends upon the accumulation of retained earnings as a means of financing the expansion. Fiscal authorities recognise the crucial position of these savings and, therefore, avoid to tax this sensitive area of investment. The internal accumulation of funds is, thus, partly encouraged through depreciation allowances and development rebates, etc.

While the normal depreciation allowances are derived to cover basic wear and tear of assets and enable the business to recoup the original cost of capital investment over a number of years, the purpose of development rebate is partly to stimulate the investment in new plant and machinery, and partly to compensate for rising price level in the replacement cost of worn out machinery. The latter consideration is particularly important because in India depreciation allowances are not linked with replacement costs.

Depreciation allowances, undoubtedly facilitate internal accumulation of funds, and without their provision the incidence of taxes would have been more severe on business. But depreciation provision do not by itself generate fresh funds. The cash flow secured through depreciation is merely the return to liquidity of funds invested in fixed assets in business. The effect of the provision is to secure a tax free cash flow to the extent depreciation is admissible for tax purposes and to withhold distribution of the amount so secured as income. Accumulation of depreciation funds and depletion reserve etc. are not necessarily available in the cash form in that way they do not increase the total resources of the companies. Re-investment of these funds, however, finances the capital demand and at stable price level may even permit some expansion in the equipment. This is true because productive life of the asset exceeds the book life of depreciation and the new asset is generally made more productive through improvement in technology.

In an inflationary period, however, accruals to reserve may fall short of current capital consumption. The accelerated depreciation method, which is used in the periods of rising prices provides for early recovery of capital cost. But it does not take into account the loss in the

purchasing power of money. The total sum recovered by way of depreciation though equal to the book value or historical cost, is not sufficient to compensate for the loss in value. While in the case of inventory valuation, the use of inventory valuation, the use of LIFO allows the adjustment for the effect of rising prices, there is no such device used to insulate the depreciation fund against the purchasing power risk. Consequently, that part of the fund which is entitled to tax exemption meets only partial need of replacement of the asset. The company has to draw its resources from other heads of savings in order to substantiate the depreciation fund for the replacement of identical asset.

Besides the direct effect of corporate taxes, the internal accumulation of funds is also effected indirectly. This influence is transmitted via dividend policy. It is true that whether to retain or distribute the profits of the corporation is one of the most important question of financial policy over which taxation may not have any direct bearing. But taxation can influence the judgement at least in two ways. As custodian of the corporate enterprise, the management has to safeguard the interest of the company; as trustee they have to look after the interest of the shareholders. This coincidence assumes significance because corporate income is subject to a substantial measure of double taxation. It is taxed first at the hands of the company and again under the personal income tax when the dividend income reaches at the hands of the shareholders. As a result of this, the directors especially of closely held companies, must visualise the effect of dividends upon the total tax position of the shareholders. Generally, the tax status of the shareholders takes too large a slice of the additional income. This often discourages the directors to declare heavy dividends, which is also welcome by the shareholders of

such companies. The income tax law, however, penalises excessive retention on the part of the closely held companies by imposing extra and additional taxes on undistributed part of the profit. In case of widely owned companies, such a close identity of interest between the directors and shareholders does not exist. But even then the dividend policy of the companies is influenced by taxes in several other ways.

Taxes have direct bearing on finances as much as they reduce the amount available for distribution as well as for retention. When the rates of corporate taxes are raised, the companies are bound to make more provision for taxes and have to adjust their finances accordingly. A study of allocation of profits before taxation in the following Table

TABLE -LXXII

ALLOCATION OF PROFITS BEFORE TAXATION (AS PERCENTAGE OF PROFIT BEFORE TAX.

YEAR	TAX PROVISION		DISTRIBUTED		RETAINED		TOTAL	
	Cotton Textile	All Others	Cotton Textile	All Others	Cotton Textiles	All Others	Cotton Textiles	All Others
1	2	3	4	5	6	7	8	9
1961	34.5	38.6	30.0	36.9	35.5	24.5	100.0	100.0
1962	41.6	43.7	27.2	35.8	31.2	20.5	100.0	100.0
1963	54.6	52.3	39.5	31.6	5.9	16.1	100.0	100.0
1964	49.7	51.0	38.2	30.0	12.1	19.0	100.0	100.0
1965	46.0	50.5	37.8	30.4	16.2	19.1	100.0	100.0
1966	81.1	51.0	72.2	31.4	-53.8	17.6	100.0	100.0
1967	53.5	47.4	45.5	32.2	1.0	20.4	100.0	100.0
1968	68.3	48.7	69.6	37.7	-37.9	13.6	100.0	100.0
%age increase(+) or decrease (-)1961-68	+98.0	+26.2	+132.0	+ 2.2	-206.8	-44.9	-	-

SOURCE: Reserve Bank of India Bulletins, Dec. 1967 & Oct.,1970.

The table shows that the decline in retained profits of cotton textile industry is by 206.8 per cent due to sharp rise in tax provision

and distributed profits at 98.0 per cent and 132.9 per cent respectively. In all other industries the decline in retained profits at 44.9 per cent is comparatively less, as the tax provision and distributed profits have increased only by 26.2 and 2.2 per cent respectively. This was natural. With earnings reduced by taxation, dividends and retained profit must in some way divide the burden between them. To the extent the burden is equally apportioned it involves no change in dividend policy. In cases where the burden is disproportionately divided so much so that one maintains stability or even follows increasing trend of tax provision at the cost of the other, it should be presumed that a definite change has taken place in dividend policy on account of taxation. May be that taxes have evoked several other considerations which were formerly ignored, or suppressed. A perusal of the Table- LXXIII which gives the percentage annual increment in profit before tax, tax provision, profit after tax, distributed profit, dividend rate and retained profit will help in analysing these factors.

The table suggests that the dividend policy of the companies has been influenced by the availability of profit and the rate of taxation. In 1963, 1966 and 1968, when the profit before tax in cotton textile has declined, the tax provision was reduced because taxes are imposed on the profitability of the companies. It appears that the major part of tax provision has been paid out of retained earnings which shows sharp decrease by 88.7 per cent, 245.2 per cent and 2,565.2 per cent in the respective years. Distributed profits have declined comparatively to an insignificant extent but with great strain and this is reflected by a slight fall in the rate of dividend from 12.7 per cent, 11.5 per cent and 8.0 per cent in 1962, 1965 and 1967 to 10.6 per cent, 9.4 per cent

TABLE-LXXIII

INCREMENT IN PROFIT BEFORE TAX, PROFIT AFTER TAX, DISTRIBUTED PROFIT AND RETAINED PROFITS

YEAR	Profit before tax		Tax Provision		Profit after Tax		Distributed Profits		Retained Profits		Dividend as % age to paid-up capital	
	Cotton Tex.	All Industries	Cotton Tex.	All Ind.	Cotton Tex.	All Industries	Cotton Tex.	All Industries	Cotton Tex.	All Ind.	Cotton Tex.	All Ind.
1962	20.5	7.1	45.3	21.4	7.5	- 1.8	9.2	5.1	6.0	-10.4	12.7	11.0
1963	-40.5	9.7	-22.0	31.3	-53.7	- 7.0	-13.5	-3.6	-88.7	-13.8	10.6	10.1
1964	13.7	13.4	3.5	10.6	26.0	-16.4	10.0	8.3	133.2	33.6	11.4	10.5
1965	4.2	3.4	- 3.6	2.4	11.9	4.4	3.2	4.2	39.1	3.7	11.5	10.7
1966	-56.0	- 0.9	-22.5	0.1	-84.5	- 1.8	-15.6	2.9	-245.2	-8.5	9.4	10.6
1967	109.4	3.4	38.1	-0.7	416.5	7.4	6.2	3.8	102.1	13.4	8.0	9.1
1968	-38.3	-15.6	-21.4	-13.2	-57.9	-17.2	- 5.6	-1.4	-2565.2	-43.7	7.1	8.5

SOURCE: RESERVE BANK OF INDIA BULLETINS, Dec. 1967 and Oct. 1970.

and 7.1 per cent in 1963, 1966 and 1968 respectively.

In other industries when the profit before tax declined slightly in 1966, the tax provision did not show much variation in relation to the preceding year. The dividend witnessed some increase leaving retained profits alone to face the entire burden, hence the retained profits decreased. In 1968, when the profit before tax again declined, the trend in tax provision, dividend and retained profits was similar to one observed earlier in case of cotton textile industry with the only difference that in textiles the decline in profit before tax is sharp with similar after effects.

An interesting feature of the study is to examine the relationship of annual percentage increase in tax provision with distributed and retained earnings. It will be observed from the above table-LXXIV that in the years when the tax provision has sharply increased, the profit after tax has a negative growth. Thus, in case of all industries in 1962 when tax provision has increased by 21.4 per cent, profit after tax declined to 1.8 per cent. In 1963, when the tax provision increased by 31.3 per cent, profit after tax declined to 7.0 per cent. In 1962, the entire burden of this increase was borne by retained earnings which show a decrease of 10.4 per cent. Dividend rate of 11.0 per cent was higher than in 1960, although slightly lower than 1961. In 1963, when the tax provision has still greater increase, profit after tax declined by 7.0 per cent. But in the same year some burden was shared by the distributed profit. Consequently dividend rate also came down to 10.1 per cent. But the major part of the incidence was borne by the retained profit.

In 1963, the Government took several measures to revive the capital market. These measures include the relaxation of control on prices of finished goods and tax relief. The replacement of the much criticised super-profit tax by a lighter and more equitable sur-tax on companies reduced the tax provision in 1964 and 1965. Profit after tax consequently increased both on account of an improvement in profit before tax and comparative reduction in tax provision. This enabled the companies to improve the position of retained earnings. The increase in profitability enabled them to maintain the dividend rate with only a small improvement in the rate of increase of distributed profit.

An important fact which is also evident from the above statistical analysis is that the implication of increasing tax provision has fallen mainly on retained earnings. Irrespective of the fluctuations in the annual growth of profit after tax, the dividend rate in textiles and all industries was established between 12-7 per cent and 11-9 per cent respectively throughout the period. Corporate management is, therefore, blamed in pursuing a policy which has eroded the companies' internal savings. Their decision, it is asserted, has been detrimental to the healthy development of corporate sector. It is more so because ploughing back of profits is a widely accepted and very effective process of corporate growth in all highly industrialised countries. It is expected that in a less developed economy where the corporate sector is poised for growth, company management would follow a conservative dividend policy and re-invest a major part of their earnings for growth. Cotton textile firms have of course endeavoured to achieve this objective but their efforts have severe strain as explained in the following review.

DIVIDEND POLICY AND THE INTERNAL ACCUMULATION OF SAVINGS:

Dividends are paid out of the income that remains after taking into consideration all the elements of cost of operations including, of course, suitable provisions for taxation and the diminution in the value of assets. But the shareholders can not claim all the profits by way of dividend and the directors usually possess an absolute power to set aside out of profits proper sums as reserves for company purposes. The earnings of a company simply represent the reward that accrues to shareholders for the venture capital provided by them and the payment of dividends is the medium through which shareholders are so rewarded.

The amount of income earned and retained can not, of course, be entirely separated. Large retention is possible only out of huge net income. But here the main interest is to find whether there is a definite pattern of relationship between corporate net income and retention. It has been common experience that unless there be some unusual phenomenon, normally, greater corporate net profits are always accompanied by larger dividends as well as greater retention. Therefore, in order to have clearly defined and stable patterns of corporate savings, the management should first decide as to what percentage of net earnings retention it considerers to be financially sound in principle and should adhere to it in practice.

The disposal of earnings is a product of many facts such as the amount of net earnings and its stability, the additional capital requirements of the business and the past dividend policies of a company[1]. Company usually distributes less than what they earn in good years. This helps in providing a measure of savings for future dividend and re-investment.

1. William H. Husband and James C. Dockeray. 'Modern Corporation Finance'. op.cit. p. 474.

Thus, it will be seen that the planning in the management of earnings area becomes a complex of decision conditioned by present needs and growth forecast. It represents the challenge of making suitable provisions pertaining to depreciation, voluntary reserves- both capital and revenue so that dividend distribution will not jeopardize the solvency of the company when the earnings deplete or disappear. It is obvious that dividend policy is clearly more than just a matter of paying the amounts shown as net profits. It is a financial decision having its collateral considerations and is most vital segment of managements responsibility for financial decisions. It is not merely an economic action but also an expression of a corporation's policy. Here it would not be out of place to distinguish between the terms 'dividend policy' and 'dividend practices'. Generally, the two are supposed to have the same meaning but it is not so. Where dividend decisions have been the result of a series of adhoc decisions, each of which was dominated by the circumstances at the time, the use of the term dividend policy is not justifiable. A meaningful dividend policy is that which has a degree of consistency over time. This is possible only when a company enjoys a safe margin of liquidity at all times through one or a combination of bank balances and highly liquid short term investments and the borrowing capacity. The concept of a dividend policy implies that business through their board of directors evolve a recognizable pattern of cash dividend payments which has a bearing on future action.[1]

The management of earnings consists of the computation and disposal of earnings. It is a part of financial management which relates

---

1. Pearson Hunt, William & Donaldson. 'Basic Business Finance'- Text and Cases; op.cit. p. 640.

both to the company as an operating entity and to the interests of the shareholders in the results of the business operations. Decisions on disbursement of profits are very important to the operating function of management. At operational level such decisions lay emphasis on the improvement of the company as a business organisation and these must help contributing to efficient day-to-day operations and the long range objectives of the owners. The basic decision is between distribution and conservation of resources. The great variety of management of earnings among the different companies in the same line of business is an evidence of the fact that there are factors in decision making which differ from company to company.

STABILITY IN DIVIDEND POLICY:

Industries, such as cotton textiles, which are chafacterised by stability of income, may formulate a more consistent policy as to dividends, than those having an uneven flow of earnings. But innumerable factors may cause crisis in cotton textiles too and their profits may be vulnerable to changes in economic scenes and in the tastes of consumers.

In the year 1953, despite return of stable conditions in the corporate sector, the profits of cotton mills industry was lower which declined further in 1954. In the year 1955, Indian industries earned profits higher than any other year during the First Five Year Plan period. This remarkable rise in profits in Indian industries was due mainly to additional investment. It is also worth noting that the levels of profit after tax and profit before tax both recorded 50 per cent rise in 1955 over 1950. Next year, i.e. in 1956, the profit after tax of the cotton textile industry had recorded a decline of 8.1 per cent compared to 1955 and the industry withdrew Rs. 8.3 crores from reserves

etc. The cotton mill industry in India stepped up the rate of dividends and dividends as percentage of profit after tax rose from 58 to 60, thereby reversing the downward trends in it noticed since 1953.

During the year 1957, for the first time since the post-Korean recession in 1952, the profit before tax of Indian Industries recorded a steep fall of 18.9 per cent. The largest decline of Rs. 20 crores (from Rs. 24.7 crores to Rs. 4.9 crores) occurred under cotton textiles and for the first time in the post-war period the cotton textile group witnessed a net loss of rupees 175 lakhs. The amount of dividend paid was reduced by 22.33 per cent to Rs. 654 lakhs as compared to Rs. 842 lakhs in the previous year. This enhanced the negative retention figure of the cotton textiles group to Rs. 829 lakhs and both the tax provision and the amount of dividend paid exceeded the profit before tax. Their percentage to profit before tax being 137 and 139 respectively.

The industries in India did their best to maintain the amount of dividend at previous years level by substantial cuts in appropriation to reserves etc. and resort to different reserves. The average dividend rate of the cotton textiles was between 8 per cent and 9 per cent. The profitability of Indian industries, which noticed a slight decline in 1956 over previous year became sharp in 1957. During the year 1958 the pace of industrial growth was slower as compared to previous two years. Though, for the industries in general the sharp break in the upward trend in corporate profits noticed since 1957 proved temporary and profits looked up again in 1958 and the profit before tax, which experienced set back in the previous year, improved considerably. In 1959, the Indian industries recorded a modest rise in profit before taxes and for cotton textiles the

proportion of dividends to net worth worked out to be slightly higher, though the industry had pruned down the rate of dividend on ordinary shares.

It is worth noting here that the Indian industries had experienced set back in the year 1961. During the next two years, i.e. 1962-63, the Indian industries recorded a moderate recovery in their working results due, perhaps, to fuller utilisation of existing capacity but their profit after tax declined for the second year in succession due to greater rise in provision for taxation. The increase in pre-tax profits proved to be inadequate to absorb the greater rise in provision for taxation being 28 per cent. This reflected the impact of super profits tax on companies introduced in the year 1963-64 budget and applicable to 1962-63 profits. The main impact of these lower profits was to a greater extent felt by dividends than by retained profits and the average rate of dividend fell from 10.9 per cent to 9.9 per cent on paid up capital. This reflected the lower quantum available for distribution together with the increase in paid up capital.

In the year 1963-64 an improved corporate performance due to more favourable business conditions and fiscal concessions was reflected by 13.6 per cent growth in gross profits and an appreciable 16.4 per cent increase in net profits in contrast to declines of 8.3 per cent in 1962-63 and 1.3 per cent in 1961-62. Greater increase in net profit was due to the lighter burden on companies on account of the important reliefs and concessions provided in the year 1964-65 budget. The object behind these concessions was to enable companies to speed up their expansion and development through larger plough back of funds into the business. For

this very purpose, simultaneously, a dividend tax of 7½ per cent on the amount distributed as equity dividends was also imposed. The result was obvious. Companies followed a policy of dividend restraint and more than two thirds of the increase in net profit was ploughed back. The substantial addition to reserves and surplus as well as to depreciation funds enabled the financing of gross asset formation to a larger extent from internal sources.

The cotton textiles too had more favourable trading conditions during the year and their sales recorded a 14.3 per cent increase, thereby reflecting the disposal of accumulated stock. The gross profits also rose appreciably by 16.9 per cent. But the profit margin exhibited only a marginal increase.

The year 1964-65 was a year of continued stress and strain for cotton textiles. The ceiling price of basic quality of cotton rose by about 9 per cent and an incessant upward movement in the prices of coal, dyes, chemicals, stores and spares continued. Further, the armed conflict with Pakistan resulted in dislocation of trade channels and it brought about a crisis of confidence. During the year 1964-65, the cotton mills, (157) covered by the Reserve Bank study paid out more than 75 per cent of thenet profits as dividends and the profits retained worked out to be less than 25 per cent of profit after tax. In the next year i.e. 1965-66, the working of the above referred 157 cotton mills resulted in a net loss of Rs. 66 lakhs and a dividend payment of Rs. 749 lakhs aggravated the loss further to Rs. 815 lakhs. The cotton textile industry continued to pass through a very critical period and the main problem facing the industry was the acute shortage of cotton and the abnormally high cotton prices.

In the years 1967 and 1968 consequent upon the successive drought that prevailed in the country, there had been a general recession and the textile industry was hardest hit in this respect, forcing many mills to close down and cut production. Cotton scarcity continued, obliging the industry to observe on extra holiday every week from mid-December 1966 to mid-April,1967, and thereafter one extra holiday every alternate week until the end of August, 1967, with payment of lay off compensation.

RETENTION AND DIVIDENDS IN RELATION TO PROFIT AFTER TAX:

The amount of net profits and the volume of retention and dividends can not be entirely unrelated. The year to year variations in net profits, retention and dividends generally exhibit some clear pattern of relationship. The fluctuations in earnings are invariably reflected in both the retention and dividends of a company. Of course, much depends on the retention and dividend policies of the management. A prudent management will always endeavour to make the policies on retention and dividends complimentary to each other. But, where liberal dividends are the rule and profits of the prosperous years are dissipated without giving due consideration to the future financial needs, the retention policies are neglected rather these cease to exist.

INTERNAL SAVINGS AND INVESTMENT POLICY OF COTTON TEXTILE INDUSTRY:

There are reasons to believe that the internal resources of cotton textile industry have not been used for its own development. As explained earlier that savings are made by business units for a variety of reasons. They were broadly classified as provisions, reserves, and surplus.

Provisions were made for some contingent liability which the business unit has to meet in future. Depreciation fund also falls in this category. The funds under depreciation accumulate inside the business or they are invested outside the business when some insurance policy of replacement of assets is taken. Similarly, sinking funds are maintained either to replace an asset or to amortise a debt. If the business has no immediate use of these funds, they are invested outside to earn a rate of interest which together with the amount of instalment fixed by the corporation enables them to accumulate the required amount of funds to discharge a specific liability. Similarly, the specific or general reserves are either retained in the business for financing development programme or they are loaned outside the business.

The cotton textile industries have also accumulated huge funds out of profits, but since it was under managing agency system these funds were directed in instituting new industries instead of modernising the capital equipment. Professor Lokanathan in one of the premier study has shown the role of cotton textile industry in initiating industrial development. He has pointed out that in the cotton textile industry under managing agency system: "there have been several instances where large sums have been placed at the disposal of industrial concerns"[1] either to start new industrial concerns or to save other sinking units from financial crisis. In this way in most of the cases the crisis in other industries has its adverse implications on the financial stability of the cotton textile industry. This policy has obviously made the industry poor in the sense that it could not utilise its savings for its own development.

1. Lokanathan P.S., Industrial Organisation in India, George Allen & Unwin Ltd., Museum Street, London, 1935, p. 223.

Professor Hazari in his study supports this point of view when he shows that the Managing Agents who were the pioneer in starting the cotton textile industry in India have spread their roots in other industries through the profits of the cotton textile industry.[1] This feature of the investment of cotton textile industry continues even today. The following table will show that investment outside the business constitutes about 4 per cent of the total assets of the cotton textile industry and the break-up of these investments will indicate that investment in industrial shares and subsidiaries constitute about 65 per cent and 25 per cent respectively of total investment.

TABLE-LXXIV

OUTSIDE INVESTMENTS OF THE COTTON TEXTILE INDUSTRY

(in lakhs of Rs.)

	1965-66	1966-67	1967-68
1. Total Investment as percentage to gross fixed assets.	3.8	3.4	3.2
2. Total Investments	21,28	20,70	21,04
Government securities ..	1,55	1,48	1,35
Semi-government securities ..	37	35	37
Industrial securities	13,30	13,36	13,69
Shares and debentures of subsidiary cos.	5,70	5,14	5,29
Others	35	37	34
3. Industrial Securities as percentage to total investment	62.6	64.5	65.1
4. Shares and debentures of subsidiary companies as percentage to total investment.	26.8	24.8	25.1

SOURCE: R.B.I. October, 1970.

This policy of inter-corporate investment is no doubt has a significant impact on the rate of industrial development of the country, but it

1. Hazari, R.K: The Structure of the Corporate Private Sector, Asia Publishing House, 1967, pp. 195-246.

has adversely affected the availability of the funds for the modernisation through internal sources. Thus, besides low profitability, high dividend rates, high rates of taxation, investment policy of cotton textile industry is also responsible for reducing the internal savings for financing modernisation.

INTERNAL VS. EXTERNAL SOURCES IN FINANCING MODERNISATION:

Normally, a manufacturing company is supposed to have a high degree of financial self-sufficiency. During expansion phases, manufacturing companies resort to both the internal as well as external sources of funds for accumulating physical assets. In contrast to this, during the contraction phases, reduction in additions to physical assets are accompanied by a decline in the external finances as well as company's savings.

A study of the sources of financing capital formation of 448 companies and the extent of external and internal financing of net fixed assets formation made by the Taxation Enquiry Commission for the period 1946-51 reveals some interesting features. During this period additions to paid-up capital (Rs. 86 crores) and to borrowings (Rs. 95 crores) were the principal sources of funds for the financing of capital formation. Of the outstanding borrowings in 1951, bank borrowings represented 41.28 per cent, recording 209 per cent increase over the period 1946-51. The increase in bank borrowings was one-half of the total increase in borrowings.

With regard to the financing of expansion of industry or net investment in fixed assets during 1946-51, the principal sources were fresh equity capital and retained profits. The Taxation Enquiry Commission observed, "It appears that corporate savings provided a larger source than new subscriptions on the whole, in the financing of industrial expansion

during the post-war period, including new companies; in respect of the older companies corporate savings were even more important." The Commission further observes, "The largest increase among the principal means of financing took place in borrowing. The increased importance of borrowings in 1951 as compared to 1946, however, has to be considered in the light of the changed pattern of assets which included a large proportion of inventory in 1951. The increased borrowing was, in fact, more than accounted for by the increase in inventories."[1]

In the year 1952, while Indian industries, including cotton textiles experienced setback there was a constant growth onwards. During the period 1950-55 the Indian industries registered a record rise of 50 per cent both in the gross and net fixed assets. This period is also characterised by the largest capital formation in the cotton textile group, being Rs. 69 crores out of a total Rs. 443 crores for all the industries. Internal sources contributed nearly 60 per cent towards the total funds being 265 crores, for gross capital formation and reserves played a vital role as an internal source. In the years beginning from 1950 to 1953, reserves rose by as much as 29 per cent and both the capital and reserves together accounted for Rs. 66 crores being 32 per cent of the internal resources. However, in the year 1952, there was sharp decline in profits which was reflected in the additions to reserves. It declined from Rs. 27 crores in 1951 to Rs. 10 crores in 1952 and the retention as percentage to net profits worked out to be 20. Even then, reserves have been much more important than paid up capital, particularly in cotton textiles and cement industries during the first five year Plan period.[2]

---

1. Report of the Taxation Enquiry Commission 1953-54 Vol.I, pp.115-117.
2. Ibid.

Depreciation as a source of funds had an important place in the cotton textile group, accounting for more than 50 per cent of total sources of funds. In the yeam 1952 and 1953, adoption of tighter credit policy towards the end of 1951, was responsible for considerable decline in bank and trade creditors, whereas in 1951, the two had increased substantially. But bank credit showed larger rise and borrowings concentrated in few groups including cotton textiles and engineering industries. Retained profits too, played a vital role in cotton textiles and iron and steel industries during the same period.

With regard to the sources of finances in Indian industries during the four years period, beginning from 1950 to 1953, four fifths of the total finances (Rs. 160 crores) was provided by internal sources. Out of this, reserves accounted for Rs. 48 crores; Depreciation Rs. 73 crores and Tax provisions Rs. 12 crores. The rest of the amount i.e. Rs. 27 crores was provided mainly by capitalised reserves and refund of E.P.T. deposits. As against this, a sum of Rs. 45 crores, being one-fifth of the total finances was provided by external sources. Out of this paid-up capital accounted for Rs. 18 crores and Borrowings Rs. 27 crores. The borrowings of Indian industries had been much the more important and almost all the major sources recorded a steady rise from 1953 onwards.[1]

As noted earlier, while Indian industries retained 2.0 per cent of net profits in 1952, the retention by them rose steadily to 46 per cent in 1955. As compared to this, the cotton textile industry's retained profits witnessed violent violations and the industry had a dis-saving of Rs. 2.10 crores in 1952, as compared to a net saving of Rs. 5.40 crores in 1953. The impact of the variations in profits fell largely

---

1. Report of the Taxation Enquiry Commission 1953-54, Vol. 1, p. 121.

on retention of profits. Thus, while in 1952 profit after tax declined sharply, dividend fell nominally and retained earnings fell by Rs. 18 crores. Consequently from 1953 onwards increasing proportion of profits was retained by the Indian industries. However, this fell far short of the increasing requirements of the companies.

The beginning of the Second Five Year Plan, with its emphasis on industrialisation, witnessed a more pronounced growth in the Indian industries. The marked increase in assets, the rate of which was highest for the post-war period, reflected this growing tempo and its maintenance during 1956. Along with the expansion of assets, there was a sizeable increase in sales; profits; tax provisions and dividends. Of course, despite all this, no appreciable change in retained profits is to be observed.

As regards the sources of funds of Indian industries, an outstanding feature in the year 1956, has been that external sources emerged out as a vital source instead of internal sources. Internal sources dwindled down from 56 per cent of the total funds in 1955 to a meagre 37 per cent in 1956. During the same year the amount of dividends was stepped up by Rs. 35 crores to Rs. 42 crores and the percentage of dividends to net profits rose from 58 in 1955 to 60 in 1956. This reversed the downward trend in the dividends noticed since 1953. As a result of this small rise in dividends the retained profits remained almost unaltered at about Rs. 28 crores and the percentage of retained profits to net profits declined from 42 to 40. This was due mainly to the loss suffered by Jute and declines in cotton textiles. Some companies were, of course, compelled to resort to reserves for paying dividends. As noted above, in 1956 a significant shift from internal to external sources took place and under the external sources bank credit was by far the most important source.

Dues to trades and other current liabilities came next in importance, accounting for 17 per cent of the total. As against this, internal sources at Rs. 93 crores, accounted for 37 per cent of total funds which were 56 per cent in the previous year. The internal sources comprised of Free Reserves and Surplus- Rs. 45 crores or 18 per cent; Depreciation Reserves Rs. 37 crores or 15 per cent and Taxation Reserves 4 per cent.[1]

It has already been noticed earlier that the year 1957 was worst for industries in general and for cotton textile group in particular. The cotton textiles had suffered a huge net loss. As a result of this, addition to various reserves etc. forming internal sources dwindled down and external sources recorded a substantial rise. In the next year i.e. 1958, a moderate rise in the retained earnings of Indian industries was recorded. As a result of reduced recourse to borrowings from banks, the share of external sources declined sharply and correspondingly the share of internal sources rose from 27.7 per cent (Rs. 65 crores) in 1957 to 48.5 per cent (Rs. 77.7 crores) in 1958. Marked rise in taxation reserves and depreciation reserves was recorded. Similarly, additions to other free reserves and surplus too, was sufficiently high.[1]

After the great set back in the three years ending 1959, in the next two years i.e. 1960 and 1961 the working results of companies improved appreciably. During the year 1961-62, external resources of the Indian industries accounted for 44 per cent of the total funds. The retained profits as percentage of profit before tax was 21 per cent in the same year. The external sources of funds had further increased in importance, for Indian industries in the year 1962-63. These were 51.50 per cent of the total funds for that year. The retained profits as percentage of

1. Ibid, p. 9

profit before tax had declined to 18 per cent as compared to 21 per cent in the previous year. Particularly, the retained profits of cotton textiles had a record steep fall during the year 1962-63.[1]

TABLE -LXXV

SOURCES OF FUNDS

(as percentage to total)

	1959-60	1961-62	1963-64	1965-66	1967-68
Internal Resources	62.8	55.1	41.2	44.8	40.3
External Resources	37.2	44.9	48.8	55.2	59.7
TOTAL:	100.0	100.0	100.0	100.0	100.0

SOURCE: Reserve Bank of India Bulletins

The decline in internal saving is bound to influence almost all the activities of the companies. Modernisation can not be an exception to this. A comparison of sources of finance for modernisation in the following table supports this view.

TABLE -LXXVI

SOURCES OF FUNDS FOR MODERNISATION OF THE COTTON TEXTILE INDUSTRY

(in Rs. lakhs)

SOURCE	1965-66 to 1968-69			1969-70 to 1973-74		
	Spinning	Composite	Total	Spinning	Composite	Total
Internal Resources	296.74 (92.6)	2750.12 (62.3)	2956.86 (61.6)	282.78 (29.1)	1430.50 (39.7)	2713.28 (38.3)
Commercial Banks	74.36 (19.0)	636.20 (14.4.)	710.56 (14.8)	245.63 (25.3)	629.66 (10.3)	875.29 (12.4)
Term Lending Institutions	40.29 (10.2)	599.20 (13.6)	639.49 (13.3)	170.77 (17.6)	1201.83 (19.7)	1372.60 (19.4)
Others	72.37 (18.2)	425.21 (9.7)	497.58 (10.3)	272.30 (28.0)	1851.55 (30.3)	2123.85 (29.9)
TOTAL:	393.76	4410.73	4804.49	971.48	6113.54	7085.02

Figure in brackets represent percentages to total:
Source: Indian Textile Bulletin, Bombay, Sept. 1969, pp. XVII-XIX.

1. Ibid, p. X.

The table shows that in the period 1965-66 to 1968-69 about 62 per cent of the resources were available internally while for remaining 38 per cent, the mills had to depend on outside agencies. It is anticipated that if the present tendency is allowed to continue the internal resources for modernisation will fall drastically to 38.3 per cent of the total resources from the previous level of 61.6.

The major reason for mills in all the three categories not being able to raise adequate internal resources is stated to be the low profit margin in the industry. A leading group of mills has explained the general position obtaining in the industry in the following terms:[1]

> "The fortunes of the textile industry are extremely fluctuating dependent on many and varied factors such as ever increasing raw materials, stores and labour costs without being compensated by a commensurate increase in productivity, unstable market conditions and mounting excise duties. As is well-known the profitability of the textile industry is among the lowest for any industry in the country and after payment of bonus, taxes and a reasonable amount of dividend, there is nothing much of a surplus left for financing any large scale programme of rehabilitation and modernisation.
>
> " A part of the retained profits, if any, and depreciation and development reserves available each year goes towards payment of past debts incurred on account of machinery, etc., already purchased."

GROWTH RATE OF FIXED EXPANSION AND RETENTION:

Growth rate of the companies is directly related to the retained earnings. A comparative study of growth indices in table-LXXVII shows that the cotton textile industry which has relatively low profits and low level of retained earnings have low rate of capital formation.

---

1. Ibid. p. XVII-XIX.

TABLE -LXXXII

PROFITABILITY, RETAINED EARNINGS & RATE OF GROWTH- COTTON TEXTILE INDUSTRY & ALL INDUSTRIES

	COTTON TEXTILE INDUSTRY		ALL INDUSTRIES	
	1966-67	1967-68	1966-67	1967-68
1. Gross Profit as %age sales net of rebate and discount	6.1	5.0	9.7	8.4
2. Profits retained as percentage of profits before tax	1.0	-37.9	20.4	13.6
3. Gross fixed assets formation	9.4	7.2	10.5	9.0
4. Net fixed assets formation	10.7	8.7	9.0	7.0
5. Gross Capital formation.	5.6	11.1	11.0	9.2
6. Net Capital formation	4.1	12.4	10.4	8.1
7. Gross fixed assets formation as percentage of assets formation	95.5	42.9	52.6	60.5
8. Capital formation as percentage of assets formation.	82.0	91.9	79.5	88.0
9. External sources as percentage of total sources of funds.	53.4	78.3	59.1	59.7
10. Increase in bank borrowings as percentage of total external sources of funds.	*	53.3	34.6	41.9

*indicates net repayments.

SOURCE: RBI Oct. 1970 pp. 1624, 1626, 1633 and 1635.

Gross profit as percentage to sales of 6.1 per cent in cotton textile industry is lower than 9.7 per cent of all industries. Retained earnings as percentage to profit before tax of cotton textile industry is only -37.9 per cent as against 13.6 per cent of all the industries in the Reserve Bank of India study.

Consequently, the cotton textile industry have only 7.2 per cent of Gross Fixed Assets Formation as against 9.0 per cent of all the industries. Net Fixed Assets Formation of 5.7 per cent in cotton textile industry is only still lower than 7.0 per cent of capital formation in all industries. Gross fixed assets formation as percentage of assets formation in cotton textile industry was only 42.9 per cent as against 60.3 per cent of all the industries.

Capital formation in cotton textile industry was mostly financed by external agencies. As compared to other industries cotton textile industry has drawn assistance from external sources to the extent of 75.2 per cent of total sources as against 59.7 per cent of all industries. The major part of external assistance to cotton textile industry was extended by bank borrowings- about 53 per cent as against 41.9 per cent to all industries.

The study, however, prima facie establishes the case for retained earnings as the industries who have high rates of expansion are those who have drawn major source of finance from internal savings. This amply supports other Empirical studies which show a close dependence of investment on the flow of retained earnings and depreciation allowance, thus making investment a function of internally available rather than total savings. As a rule, the companies prefer to plough back a greater

proportion of profits at the early stages of their operation for that relieves them from the complexities involved in raising funds from the market.[1] In this connection both the Government and the corporate management have to streamline their financial policy. It is the purpose of the next Chapter to draw an integrated programme whereby the government could extend a helping hand to the cotton textile industry to enable them to reach the stage of self-finance.

CONCLUSION:

It can be concluded that profitability, internal savings and modernisation are inter-related functions. Business savings are made with a variety of motives but are sustained only with the profitability of the operating unit. The earning ability can not be detached from modernisation. Modernisation aims at reducing cost, increasing turnover and enhancing efficiency. This inter-relationship though important for the survival of an industry, is difficult to maintain. When the saving and investment functions in business are disintegrated, the industry could hardly accumulate adequate savings to foster development.

The cotton textile industry could not accumulate necessary funds for modernisation on account of low profitability, high rates of taxes and stable dividend policy. Even the funds that have been saved were not used for internal expansion. The cotton textile industry is a typical example of Managing Agency system of finance under which the profits of the industry have been used for initiating development in other sectors of the economy. Thus, there is a great need to rationalise the investment

---

1. Mayor, J.R. and Edwin, K. The Investment Decision, Harward University Press, Cambridge- 1957, p. 17.

policy of cotton textile industry where its savings could be used for financing its own growth. In other words, steps have to be taken in the first instance to increase the profitability of the industry; secondly a sound policy of appropriation of profits has to be adopted and finally a proper use of the savings for internal growth of the industry have to be conceived. These problems of cotton textile industry can not be separated from the national economic policies. The purpose of the following concluding Chapter, therefore, is to suggest ways and means whereby the cotton textile industry could reach a stage of auto-finance within the economic and social framework of the country.

———oOOo———

CHAPTER- VIII

REVITALISING AUTO-FINANCE AS A PROCESS OF GROWTH

A review of the cotton textile industry and of its financial resources in this study indicates that some preliminary measures have to be taken to clear ground for the industry to reach a stage of self-finance. The industry must be guided in the implementation of its programme and should be financially assisted.

The need for technical guidance arises mainly on account of the fact that through rapid technological development modernisation has become more complicated. It needs the assistance of specialised agencies who besides technical assistance could also extend funds for specific programmes of modernisation. Each firm has got distinct problems which need a separate treatment. It will not be possible for Industrial Finance Corporation and other existing secondary institutions to extend technical advice for modernisation in the

rapidly changing technological development. Likewise, National Textile Corporation which has come into existence to take up the control of sick industries has got an entirely different area of operation. Uptil now sixty-four thousand workers have been re-employed as a result of the corporation's take over of 23 sick mills all over the country.

The N.T.C. has completed two years of existence during which eleven mills were taken over. Twelve others had been brought under government management before the N.T.C. came into being. Further few other mills in Gujrat and Tamil Nadu will be taken over shortly. Acquisition of the mills is provided for in the new schemes for reconstruction and modernisation to ensure their viability and competitiveness against private mills.

Though the mills taken over were old and most of them will need new machinery in about two years, the new management was able to provide for depreciation and interest on the working capital. There were no unsold stocks lying with the mills which were selling their products at rate that had caused concern among their competitors.

The total amount made available to the National Textile Corporation mills so far was Rs. 155lacks. In addition, Rs. 178 lakhs had been invested to operate a scheme for the supply of cotton to these mills on a no-profit basis. State Governments provide 49 per cent of the working capital when sick mills are taken over by the N.T.C. About Rs. 17.5 crores will be spent on modernisation of the mills during the next four years.

The Public Accounts Committee in its 28th report presented to the Lok Sabha, has suggested that the Government should carry out a study in depth of the problems afflicting the textile industry. Management of 23 mills which were closed or on the verge of closure had been vested in authorised controllers appointed by the Government under the Industries (Development and Regulation) Act 1951. The accumulated losses of these mills which were Rs. 1,607 lakhs prior to take-over by the authorised controllers increased to Rs. 2,636 lakh subsequently. The Public Accounts Committee has desired that reasons for the continued losses should be gone into thoroughly and urgent steps taken to liquidate or reconstruct the mills. Further, there are 5,907 surplus staff in 16 mills taken over by the authorised controllers accounting for a financial burden of Rs. 10.31 lakhs per month. The Committee has also expressed its concern that there had been a significant rise in establishment expenditure in respect of quite a few mills after their take-over by authorised controllers.

It is, however, questionable that an agency which has come into existence for assisting development should entangle itself with the problem of management. A cautious approach will suggest that the National Textile Corporation has got specified purpose and it should not be overburdened with a task of financing modernisation. It is, therefore, suggested that a specialised institution- "Cotton Textile Rehabilitation and Modernisation Corporation" should be established to render useful technical information and financial assistance. The task of this corporation should be to collect data and to formulate a uniform programme of modernisation for the entire cotton textile

industry. It will import foreign technique, but make them adaptable to Indian conditions.

In the modern industrial technological development where rapid changes are taking place, less developed economies have certain advantages, in the sense that they are in a better position to eliminate costly errors and to develop through a programme which has already been well tried by other developed countries. In this way unnecessary expenditure could be avoided. Latest trend in cotton technological development must be examined by the proposed corporation and it should see that they are applied to our own society.

Transplantation of technological development without their relevance to Indian conditions has often caused serious problems. And in all fairness such costly experiments and errors should be avoided. The task of the proposed corporation should, therefore, be to apply the latest development in technology, with relevance to Indian conditions.

The second task of this corporation will be to finance a well planned programme of modernisation i.e. the programme that has been finalised after a thorough study of technological developments. The resources of this corporation by and large should be collected by the cotton textile industries themselves. The paid up capital of this corporation may be subscribed by the cotton textile mills of the country. It is also proposed that the mills subscribing to the paid-up capital should be given some concession in the payment of taxes. Industrial Finance Corporation and other specialised agencies may also subscribe to its paid-up capital. The Central and State Governments will also

substantiate the resources of the proposed corporation. The corporation will also collect capital by floating debentures in the National Capital Market as well as the International Capital Market.

Further, after considering the whole problem in a comprehensive manner, it is concluded that certain policy decisions and programmes for the entire industry as a whole in the country should be arrived at, and brought to the notice of the central government and the State governments.

After decontrolling cotton, which is the basic raw material for cotton cloth, it is impossible for the cotton textile industry and mainly for the weaker mills and the mills producing coarse and lower medium cloth to earn any profit in most cases under the existing partial controls on production and prices of 25 per cent of production. The controls operate to the great disadvantage to these coarse, medium and weak units. Looking the reduced off-take of the cotton cloth in the last few years and keeping in mind the existing capacity of the mills to produce much larger quantities of cloth than the current consumption, it is obvious that as a result of complete decontrol of production and prices, any significant rise in prices of cloth can be ruled out. Maybe, a few good mills manufacturing popular brands might try to raise their prices which even now they can do under the 75 per cent cloth being outside the controls. In any case, such mills have full possibility and opportunity of making some increase in their prices in the non-controlled sector even under the present partial controls. Therefore, the removal of present partial controls on prices and

production is a most important measure to help the cotton industry.

THE PROGRAMME OF MODERNISATION:

In view of paucity of resources, it will not be feasible to implement modernisation, however pressing it may be, for all firms in the industry or every process in the firm. In the first instance under a phased programme of modernisation only such units in the industry which are not having large proportion of old machinery can undertake a phased and gradual programme of modernisation provided the finances are made avilable to them on the following lines.

All indigenous and foreign (permissible for import) machinery will be purchased by the mills on the deferred payment arrangement from the indigenous and foreign manufacturers through the scheduled banks with the State Government guarantees and the arrangements worked out by the Central Government and the Reserve Bank of India with the scheduled banks.

The repayment to scheduled banks should be spread over for a period of 10 years from the date of drawal of the deferred payment loans and the first payment beginning from the third year of the drawal and subsequent payment in seven equal annual instalments.

CRASH MODERNISATION PROGRAMME:

With regard to large-scale crash modernisation programme for mills which are in a position to undertake the same, the possibility of operating the financial assistance for such large scale units, the

following programme of assistance appears to be feasable.

Loan arrangements can be made with the Industrial Finance Corporation of India, Industrial Development Bank of India and the Scheduled Banks forming consortium for different regions to be formed for financing such approved applicants with the guarantees of the State Governments.

As the written down value of the old blocks, land and other properties is much less than the present market value of the assets or replacement value of the assets in almost all cases, the loan advanced for modernisation should not be restricted upto 50 per cent of the assets (old and new) as at present but should be granted up to 80 per cent of the value of the new assets with the necessary formalities of making the new loan as the first charge or as pari-passu first charge with any existing loans as first charge, subject to the total loan not to exceed 75 per cent of the total value of the old and new assets (including the written down value of old assets and the value of the new assets). This is necessary because the cost of modernisation is very heavy due to higher prices of machinery, equipment and constructions ruling at present. Normally, the capital block should have been allowed to be revalued. But appropriate revaluation of the total assets in terms of the replacement or present market value being a very elaborate and long drawn process, it will be almost impracticable, to wait for the revaluation which will vary from mills to mills and will take long time. It is therefore best and most practicable to advance loans upto 75 per cent as stipulated above. This is in line with the practice followed by the National Industrial Development Corporation when it

granted sizable loans for modernisation. If four or five such participating consortiums are formed it should not be difficult for the Modernisation Commissioner of the Central Government and State Modernisation Commissioners to process suitable applications with State Government Guarantee with the appropriate consortium.

The repayment schedule will be spread over a period of 15 or 20 years with the first payment beginning after the 3 years of the drawal of the loan and repayment being spread in 22 to 32 half-yearly equal instalments.

For both the categories of modernisation as described above, the following general conditions and concessions are suggested:

The Government may agree to such gaurantees being given on obtaining the personal guarantees of the management and the applicant agreeing not to sell his share of the company or withdraw any deposits of the members of the Management and their associates.

In case of every mill requiring modest or sizable financial assistance from the banks, financial institutions and corporations with or without State or Central Government guarantees, the applicant mill will have to agree to the appointment by Government and the Banks or Corporations of two Directors on the Board of the Company, who will exercise specified powers regarding finance and management decisions.

While advancing financial assistance as above for running and/or modernisation to any mill, Government, Banks and leading institutions should, where necessary, insist on strengthening or improving or replacing the existing management by suitable competent management so that proper

utilisation and safety of the funds and efficient working is ensured. Government will also have to streamline and simplify their procedures etc. in order to help to implement comprehensive modernisation programmes so that the banks and other financial institutions can and should come forward to render the above financial assistance without delay, hesitation and undue procrastinations.

In order to encourage modernisation and also to lighten the burden of the otherwise expensive and high cost of modernisation due to the prices of indigenous machinery being very high, the mills will require some help to meet the capital cost of modernisation, which otherwise will become excessively burdensome. It is, therefore, suggested that the Central Government should give a refund of 10 per cent of the total value of the amounts actually paid out by a mill in any year for the purchase of indigenous (and imported) machinery out of the excessive duty amount payable by the company during that year. This concession should continue to the textile industry for sufficiently long period of time so that modernisation on a national level is satisfactorily implemented and completed. If and when the government wants to withdraw this concession, the amounts of money committed for the purchase of machinery for modernisation on the deferred payment basis by the company concerned in the previous years should continue to be entitled to such refunds till the deferred payments entered into as firm commitments are completed.

RE-VITALISING THE PROCESS OF AUTO-FINANCE:

The basic factor leading towards auto-finance is undoubtedly productivity and profitability of the industry. But as long as the

industry is engaged in carrying out the programme for modernisation, it should be helped by fiscal concessions.

The first step in that direction is to declare the cotton textile industry as a "Priority Industry" under the Indian Income Tax Section 23A and should be notified as such in the schedule under the Act. This will enable the textile industry to receive a higher rate of development rebate at 35 per cent as compared to the development rebate at 25 per cent. This will also enable the industry to finance large part of their rehabilitation, renovation, replanning, modernisation programmes and undertake expansion and establishment of new units from within its own resources. Once each of the existing mills is modernised and expanded to economies of scale and new uptodate mills come into existence, the industry will generate, as compared to its investment, its own profitability at a much higher level as compared to its profitability at present with old and outworn machines. The additional production and extra profit will yield additional excise duties and extra taxes to the Government leaving enough return both to the shareholders and to the textile mills for meeting the requirements of repayment of loans borrowed by the industry without putting any additional burden on either the exchequer or the consumer.

When industries like engineering, machine-tools, pharmaceuticals and chemicals and various other industries are being classified as "Priority Industries", it is obvious that an industry like cotton textile, on which so much of employment, national income, production and supply of essential commodities like cloth depend, should be given a 'Priority' status. Unless life and vigour are put into the cotton

textile mills, it is obvious that none of the engineering, industrial machinery, chemical and other industries can obtain large orders for their products.

Ultimately, in Indian economy, the cotton textile industry is and will continue to be the king-pin of India's industry. Therefore, while the Government may have been justified in not granting a 'priority' status to the cotton textile industry for all these years, it is high time that the benefits of large developmental rebate are allowed to this basic and essential industry so that the high capital costs of modernisation and establishment of new units could be met by this industry in the same manner as the Government have allowed in the case of engineering, machine tools, industrial machinery, pharmaceutical and chemical industries. Cotton textile is the biggest employer and contributes the largest to the national income. It yields high taxes and duties.

It is being viewed that this is the only single step which will enable cotton textile mills to find their own resources for modernisation and expansion without cutting into any of the revenues, taxes, or resources of the central and the State Governments. The modernised machines will produce cheaper and better cloth and will yield larger production which will compensate the government much more than what they will grant to this industry in the form of additional developmental rebate by classifying it as a 'priority' industry. At least for a decade or so till this industry gets back its life and vitality, the 'priority' status under Income Tax Act, Section 23A, is most essential.

Wherever Central Government or the State Government render long term financial assistance to the mills for modernisation and renovation programmes, the appointment of the Modernisation Commissioner in the Textile Commissioner's Office or under the Ministry of Commerce is suggested so that for future operations as well as for current problems, technical and economic advice and guidance are made available to those units. Likewise, in the principal states where a large number of textile mills are working, the State governments should set up similar organisation of State Modernisation Commissioners at the State level. The Modernisation Commissioners should be experienced technocrats, having worked in the textile industry for at least 10 to 15 years in responsible capacity. They should be assisted by suitable competent and technically experienced staff.

The above assistance of higher development rebate as "Priority Industry" and the modest concession in excise duty recommended earlier to cover one-tenth of the actual certified total capital expenditure on modernisation (i.e. machinery, plant, construction, building and erection) will work out to about 10 per cent to 15 per cent of the total cost of modernisation and rehabilitation which a cotton textile mill will undertake. The major portion of expenditure on modernisation and rehabilitation i.e. 85 per cent to 90 per cent of the total cost will have to come from the funds of the textile unit concerned and will be borne by it. Thus, this modest assistance from government for modernisation of this most important but old industry will greatly accelerate the process of modernisation which has otherwise become excessively costly and burdensome due to the present high capital cost of machinery and construction.

The fiscal treatment will not be available for the closed mills. For them an entirely different approach is suggested. They can be divided into three broad categories:-

(i) Such of the closed mills, which have been forced to close because of mismanagement but whose machinery and equipment is not uneconomic, can be worked properly with adequate working capital and then gradually modernised through a well worked out programme. Such mills can be taken over by the authorized controllers appointed by the Government or by the Central Textile Corporation. However, in the present circumstances very few units would be fit for this treatment. It is suggested that the State Governments may take over few closed mills of the above type under their appointed authorized controllers so as to run them in the interest of continuing employment.

(ii) Among the closed mills, some of them are extremely bad and heavily indebted. The best course will be to sell them out through compulsory or voluntary liquidation so that the new purchaser can take them over free from debts and either scrap them or may try to run them, if possible, through reconstruction of the company and the unit.

(iii) In case of both the above categories, it should be also possible to ask each of the good managements among the existing mill owners to take over one or two such units each and run them after merging them in their other existing mill companies. This will give the benefit of competent management and comprehensive technical guidance with their capacity to bear some losses in the beginning by the more profitable counterparts of such firms. If a dozen leading millowners come forward to do this, the problem of 15 to 20 such mills could be solved.

(iv) There are some closed mills which are totally unfit to be worked and should be scrapped. The only solution of such mills is to allow them to be scrapped, either by the present owners or through voluntary or compulsory liquidation proceedings. There may be two opinions regarding the question of scrapping totally uneconomic mills. One is that in the interest of employment, maintenance of industrial peace and from the humanitarian point of view, scrapping should not be encouraged as far as possible. While the other point of view is that it is inadvisable to spend huge amounts of public revenue on mills which are unworthy of being run economically on account of obsolete machinery.

Some of the units might have to be scrapped because it will be impossible to rehabilitate them. However, the number of spindles and looms that are scrapped by stopping certain units in any State should be earmarked for the same region or for the same State so that the overall employment and production in any State does not suffer. New units should be allowed to come up and existing units be encouraged to expand. Such of the existing units which are allowed expansion in capacity should be treated on similar lines as marginal units trying to modernise so far as grant of financial facilities are concerned. The central and the State Governments, therefore, should see that due to scrapping of unviable unit in any State, installed capacity and production in the respective State does not get reduced.

The mills which are doing well should commence working third shifts so as to absorb the workers rendered unemployed due to the

closed mills. The Presidents of the Millowners' Association should, therefore, be requested to consult their colleagues in the industry who should be persuaded to sponsor the running of the third shifts in their mills. This will help to absorb a sizable number of workers of the closed mills as well as surplus workers of the modernised mills.

Weaker and uneconomical units should be given tax incentive to amalgamate so that operating unit may become of an optimum size. In this connection the following tax reforms are suggested:

(a) the gains arising to the absorbed company on a merger should be exempt from tax if the entire assets and liabilities of the absorbed company are taken over by the absorbing company at book values and the business is continued;

(b) the gains arising to the shareholders of the absorbed company on a merger should be exempt from tax if the consideration is represented solely by shares in the absorbing company; in any case, the tax thereon should be deferred until actual realisation of the gain on the dissolution of the absorbing company;

(c) the clouds of mystery hanging around the tax provisions relating to corporate mergers should be cleared by suitable amendments to an authoritative interpretation of law; and

(d) finally, in line with other countries the tax laws of India should provide incentives for fostering healthy and desirable concentration of business and industry, leaving the task of curbing restrictive and monopolistic practices to the permanent statutory commission appointed by the government.

In addition to this various tax aids that can be suggested for inducing savings for development include minimum flat sum exemptions, low rate on smaller incomes, accelerated depreciation, a limited tax free retention of earnings for expansion or other capital needs. The Indian tax system has combined all these features which, ineffect, lowers the incidence of taxes.

In the first instance, a tax holiday at the rate of 6 per cent of the employed capital of the undertaking is available to new industrial undertakings established after March 1948; and big hotels (with a paid up capital of at least Rs. 5 lakhs) established after March 1961, for five successive years from the commencement of production. This concession is available also for the expansion of the existing concerns upto 6 per cent of the capital employed in the expanded activity. Dividend declared out of profits so exempted is also free from income tax in the hands of the shareholders.

Secondly, companies are entitled to the normal depreciation allowances on plant, machinery, furniture, buildings, (constructed after March 1961) for the residence and welfare of the low-paid staff. Besides this, an extra shift allowance equal to 50 per cent of the normal depreciation is allowed for the period for which plant or machinery has worked double-shift. The allowance goes up by another 50 per cent if the plant and machinery works triple shift.

Thirdly, companies are given development rebate, which is in effect a deferred governmental subsidy by way of tax relief, with respect to capital expenditure on new ships, or new machinery or plant,

whereby a prescribed percentage of the expenditure, varying between 40 per cent and 15 per cent is deductible in the year incurred in computing the total income. This rebate is over and above the depreciation and extra shift allowance and thus the total amount deductible over the life of the depreciable asset which qualifies for development rebate is more than 100 per cent, for example, in the case of ships it is about 140 per cent. Development allowance is also available to tea industry for plantation in new areas and replantation of the dried bushes at the rate varying between 40 and 20 per cent of the actual cost of planting or replanting.

Fourthly, all revenue expenditures incurred on scientific research related to the business are allowed to be deducted from the taxable profits, while the capital expenditure on scientific research related to the business is allowed to be amortised at the rate of 20 per cent over a period of five years.

Fifthly, loss sustained under one head of income can be set off against profits under any head and thus only the net income is taxable If the profits prove insufficient for this purpose , the loss can be carried forward and set-off during eight succeeding years.

Sixthly, for promoting export-oriented industries, tax concessions are given to Indian companies in respect of expenditure incurred for the development of export market such as publicity or advertisement, obtaining market infomation, distribution of goods or the maintenance of branch offices, outside India. The deduction so available is equal to one and one-third times the amount of such expenditure incurred during the previous year.

Besides these specific tax concessions, there are various schemes of tax-free tax credit certificates which are available by way of adjustments against tax liability or as a cash refund. The aim of these schemes is (a) to stimulate production of specified exciable goods such as cement, newsprint, caustic soda, soda ash and certain categories of papers; (b) to encourage channelling of resources for the expansion industries mentioned in the first schedule to the Industries (Development and Regulation)Act 1951; and (c) the dispersal of industries from urban areas.

The suggestion to reduce the tax burden and tax incentive for internal savings are designed to raise the profitability of corporate sector so that it may ultimately become a positive contributor in the national flow of funds. From the point of view of socialistic pattern of society, a relative increase in profits is not necessarily the same as an increase in the inequality of the distribution of income. This increase is generally associated with a corresponding decline in the relative importance of income from rent.

In suggesting these tax concessions, one must take care that undistributed profits should not increase the idle reserves of the corporations thus reducing the supply of loanable funds in the economy. Instances are not rare where the corporations have indulged in speculation in shares and unnecessary hoarding of inventory entirely on the strength of internal reserves. In certain respects, the 'hoarding instinct' of the corporation is not much different from individual and in this way the funds that may accumulate under tax concessions can be utilised for unproductive investment.

Some researches have also shown that corporate management would tend to use undistributed profits with less care than they would with capital raised externally. Evidence can be found for a lower productivity of a unit of reinvested profits as against a unit of external capital.[1] It may also happen that further expansion of existing corporation is not in the social and economic advancement of the country. Under these cases, it would then be desirable to discourage the internal accumulation of funds and expose the corporation to the test of capital market. State should have a degree of control over the use of these funds. Fiscal measures constituting one aspect of control are desired to regulate the flow of funds.

As explained earlier, specific provisions are made in tax laws for self financing of economic development. These incentives should be selective and concern a given sector which is of special interest in terms of economic activity. For instance, in New Zealand, mining corporations are assessed on half of the dividend distributed. In France, re-investment of profits of corporations engaged in oil research are exempted from income tax. Similarly, in most of the European countries, which are in the category of developing nations, corporations have difficulty in finding the money they need on the capital market and self-financing is the only possibility open to them to expand their activities. Thus, by and large self-financing of enterprises plays a more important role in developing economies than money obtained from the stock market and the banks aside from public investment.

---

1. McHugh F. Longhlin: The Development of Historical series on sources and uses of corporate Funds in Conference on Research in Business Finance- National Bureau of Economic Research, New York; 1952-p.3.

Thus, the tax provisions generally change at the different stages of economic development. At the early stage of development, incentive is provided for the accumulation of profits because there is no better source of capital available in the economy while there are natural resources, the exploitation of which requires large investments. This is the case where the bulk of economic activities are carried on in unorganised sector and the possibility of transformation of capital from the organised towards the unorganised sector exists. Such misdirection of funds, it is recalled, creates impediments to the growth process.

But when a tax discrimination in favour of undistributed profit is suggested, there is need that such savings must be invested strictly in accordance with the economic plan framed by the Planning Commission. There will be need to establish a statutory body to take care of such investments. For this purpose, establishment of the office of the Controller of Capital or an expansion in the activities of the present controller of capital issues on the lines of Swedish Royal Labour Market Board is suggested. The main and broad functions of the Board is to see the investment of funds.

The Cotton Textile mills will be allowed to accumulate tax-free reserve. A maximum yearly amount which can be set aside by a firm as investment reserve must be fixed. It is 40 per cent of operating income in Sweden. In India, the average of five years of the retained profit as percentage of the profit before tax is about 20 per cent. In view of the development and modernisation programme and the rate of capital formation which is envisaged in the Five Year plans, in my opinion 40 per cent of operating income can be a safe limit. At least

50 per cent of each addition to the investment reserve must be deposited in special accounts with the Reserve Bank of India. These deposits will bear no rate of interest and will be blocked until all or part of the reserve is properly used.

Investment reserves may be allowed to apply tax-free after permission for their application has been obtained from the Controller of Capital. Inducement to the employment of Reserve may be given in the form of bonus or tax rebate for all such investments that have been applied with the consent of the Controller of Capital. A penalty may be levied against illegal use of investment reserves. A number of additional technical refinement can be devised with a view to making this reserve more useful for economic development.

Investment reserve that will accumulate with the Reserve Bank of India will have several advantages. First, it will impose a positive check in those cases where undistributed profits instead of being re-invested became idle reserves and are without adequate possibilities for the tax administration to ascertain whether or not reserves are justified. This will safeguard the use of funds against speculation and hoarding of inventory. Finally, inter-corporate investments can also be brought under the jurisdiction of the Controller of Capital Issues.

Accumulation of free savings through tax incentive has been supported for modernisation for a variety of reasons. One of the basic aims of retained profit is to enable the business to withstand seasonal reactions, the shock of business depression, and the vicissitudes of broad social movements. It also adds greatly to the credit position.

The accumulation of retained earnings is usually taken as an indication of progress, which increases the amount of the residual equity and helps to make the company a good credit risk. A stable dividend policy is facilitated by retained profit because it is protected against fluctuations in earnings and at the same time helps in soliciting the support of shareholders for additional funds. While the retention of a portion of earnings in the business may not represent any sizable amount of additional capital in a given year, the accumulation may be quite important over a longer period of time. Ploughed-back surplus will frequently provide more additional capital than is obtained through the sale of new securities. Also funds accumulated in this manner may be used to liquidate indebtedness of a company.

The role of internal finance has thus been highlighted in the study to strengthen the capital structure of the industry. A strong equity base provides the cushion that absorbs losses and declines in the value of assets.[1]

Moreover, the growing surplus account is usually taken as an indication of progress which enhances the equity and makes the company a creditworthy. Secondly, a stable dividend policy is facilitated by the regular accumulation of reserve. The combination of good credit rating and established dividend record adds to the stability and endurance of the corporation to bear the economic fluctuation.

The 'flowing-in' profits is an important source of expansion. It provides more additional capital than is obtained through the sale of new securities. Also funds raised in this manner may be used to retire debts to the end of having a company free of long-term debt.

Retained earnings have greater significance for small corporations or the concerns with an unfortunate financial background. These resources constitute the only practical means of financing growth or of relieving a heavy load of prior securities.

Similarly, anything that improves the position of the company must favourably affect the position of shareholders. Internal accumulation of funds provides a greater assurance against failures and the value of shares appreciates as the funds continues to accumulate. The retention of surplus is an act of trust performance and it is done to strengthen the position of the company as well as its shareholders.

Besides, retained earnings increase a firm's net worth and are both a device of new financing and a logical course of action to reduce the current debt burden when solvency is threatened.

Furthermore, in these days when company taxation has reached a high level and costs and prices have recorded enormous rise, thereby enhancing capital requirements, it has become necessary to conserve resources to facilitate replacement and expansion and provide for contingencies. The policy of retained earnings varies in significance from company to company depending upon the situation obtaining in a particular company.

Moreover, retained earning is one of the several forms of equity financing which is considered mistakenly as a cost free source of funds. The exact amount from this source is an outcome of the relationship between net profits and dividends and retained earning policies of a company. Companies retain varying proportions of earnings from year to year and a careful study may reveal a pronounced cyclical pattern of

retention. For some companies re-investment of earnings takes the form of a well-accepted policy although such re-investment apparently does not bear any relation to the prospective return on investment opportunities from year to year.

Moreover, the re-investment of earnings tend to increase the return on per share as the number of shares remains the same. For this very reason the participation in growth also remains unaffected. But the re-investment of earnings by a company does not ensure a comparatively larger returns at the hands of the company than is the case when re-invested by shareholders themselves elsewhere. The retention of earnings is an involuntary form of investment by the owners. Therefore, the management ought to view the investment in a particular business as one of several investment opportunities open to the stock holders. This leads one to the concept of 'opportunity cost' which simply means that "every investment, including retained earnings, viewed in this way, has its opportunity cost in the income foregone by not investing in alternative investment opportunities of similar quality and risk".

Finally, in less developed economies, characterised with high propensity to consume, retained earnings by business which is supposed to have high propensity of savings, has important place in the national rate of capital formation. At present corporate savings do not exceed 7 per cent of the total national savings which is quite low as compared to U.K. and U.S.A. Hence, the measures that will enable the cotton textile industry to reach the stage of self-finance may prove to be of immense significance.

SUMMARY AND CONCLUSION:

The process of auto-finance, though a potent factor of growth, can not be hastened. The ability of the industry for auto-finance is to be increased through monetary and fiscal measures and above all by the efforts of the industry itself. Big programmes of modernisation can not be undertaken through internal resources alone. The review of the cotton textile industry, therefore, draws an inevitable conclusion that the ground should be cleared for modernisation and a strong base be prepared for the regeneration of the industry. In this connection, all the sick mills be taken over by the National Textile Corporation and the smaller units must be brought to optimum size by a programme of amalgamation to withstand the burden of modernisation. In the preliminary stages of the modernisation programme, much of the finance should be advanced by the external agencies. Again, the establishment of 'Cotton Textile Rehabilitation and Modernisation Corporation' will function as a guardian to look after modernisation.

Once the modernisation is initiated by external assistance, the industry will become self-sufficient in resources through increased productivity and profitability. Some tax concessions are essential to curtail gestation period of reaching the stage of auto-finance. It is, therefore, recommended that the Cotton Textile Industry should be declared a 'Priority Industry' under the Indian Income Tax Act. The Industry may also be given tax exemption on retained profits. The subsidies and other tax concessions should be withdrawn as soon as the industry becomes economically viable.

———————oOOoo———————

B I B L I O G R A P H Y

A. BOOKS:

ABBAS, S.A. — Capital Requirements for the Development of South-East Asia. (Groningen, J.B. Wolters, 1955).

AMALSAD, D.M. — Organisation of the Cotton Handloom Industry. 1959; Orient Longmans (P) Ltd., Calcutta.

AMOS, J.E. — The Economics of Corporate Saving. (Urbana, University of Illinois, 1939).

ARMSTRONG, W.E. — Saving and Investment. The Theory of Capital in a Developing Community. (London, George Routledge & Sons Ltd., 1966).

BALAKRISHNA, R. — Measurement of Productivity in Indian Industry. University of Madras, 1963.

BASU, SAROJ KUMAR — Financing of Post-War Industry; A Study in Institutional Developments of Industrial Finance. (Calcutta, The Book Exchange, 1958).

BENGAL INDUSTRIES (Department of-) — Cotton Mills Industry in Bengal, 1957. Superintendent, Government Printing Press, Bengal.

BERI, G.C. — Measurement and Productivity in Indian Industry. Asia Publishing House 1966.

BERLA, A.A. and MEANS, G.C. — The Modern Corporation and Private Property. (New York, Macmillan, 1963.)

BOND, G.D. — Financial Aspects of Industrial Management, 1955. Butterworth & Co., London.

BONNE, ALFRED — Studies in Economic Development; With Special Reference to Conditions in the Under-developed Areas of Western Asia and India. (London, Routledge and Kegan Paul, 1957).

BUCHANAN, DANIEL H. — The Development of Capitalist Enterprise in India (New York, Macmillan, 1934).

CIRVANTE, V.R. — The Indian Capital Market (Bombay, Popular Book Depot, 1956).

CLARK, COLIN, — The Conditions of Economic Progress. (London, Macmillan, editions 1940, 1951 and 1957).

CLARK, J.M., — Studies in the Economics of Overhead Costs (Chicago, University of Chicago Press, 1954).

COALE, A.J. and HOOVER, E.M. — Population Growth and Economic Development in Low-Income Countries. A Case Study of India's Prospects (Princeton, Princeton University Press, 1958).

COLE, G.D.H. — Studies in Capital Investment (London, Victor Gollanez Ltd., 1965.)

COTTON TEXTILE EXPORT PROMOTION COUNCIL, BOMBAY. — Hand-book of Indian Cotton Textile Industry, 1960.

_____ — Hand-Book of Indian Cotton Textile Industry. 1965/66

_____ — Indian Textile Delegation to South-East Asian Countries, 1955

_____ — Report of the Indian Textile Delegation to Eastern and Central African Countries, 1959.

DALAL, R.J. and SHAH, S.M. — Cloth Control 1944. Law Book-seller, Ahmedabad.

DANTWALA, M.L.	Hundred Years of Indian Cotton (East India Cotton Association, Bombay, 1947).
DASGUPTA, A.	Economic and Commercial Geography, Calcutta, 1961.
DAS-GUPTA, A.K.	State Financing of Private Enterprise in Post-War India (Calcutta, Modern Book Agency).
Das, N.	Banking and Industrial Finance in India. (Bombay/Calcutta, Oxford University Press,1956).
Datta, Bhabatosh,	The Economics of Industrialisation: A Study of the Basic Problems of an Underdeveloped Economy. (Calcutta, World Press, 1952).
DAVIS, HIRAM S:	Industrial Study of Economic Progress. University of Pennsylvania, Philadelphia, 1957.
DAVISON, J.P. and Others.	Productivity and Economic Incentives. Ruskin House, G. Allen & Unwin Ltd., Museum Street, London 1944.
DEWING, A.S.	The Financial Policy of Corporations, (New York, Ronald Press 1953).
DOBB, MAURICE	Studies in the Development of Capitalism (London, George Routledge and Sons Ltd., 1966).
DOBROVOLSKY, SERGEI P.	Corporate Income Retention (New York, Nation Bureau of Economic Research, 1956).
FABRICANT, SOLOMON	Employment in Manufacturing. (New York, National Bureau of Economic Research, 1962).
FAROOQUEE, Q.H.	Cottage and Small Scale Industries as a Means of Providing Better Opportunities for Labour in India. M.U. Press, Aligarh, 1959.
_____	Technique of Thesis Writing, M.U. Press, Aligarh, 1965.

FELLNER, W.. "The Capital Output Ratio in Dynamic Economics." Money, Trade and Economic Growth. (New York, Macmillan, 1951).

FLORENCE, P. SARGANT Investment, Location and Size of Plant (Cambridge, University Press, 1958).

FONG, C. Cotton Industry and Trade of China. Cambridge University Press-1954

FRIDAY, DAVID, Profits, Wages and Prices. (New York: Har Court, Brace & Howe).

GERSTENBERG, C.W. Financial Organisation and Management of Business. Prentice Hall, New York.

GOYAL, M.H., Indian Economy Since Independence: Financial Policy of the Indian Union 1947-53 (Delhi University Press, 1955).

GOVIL, K.L. Cotton Industry of India. Prospects and Retrospects. Hind Kitab Bombay, 1965.

GRANT, A.T.K. A Study of the Capital Markets in Post-War Britain. (London, Macmillan & Co. Ltd., 1957).

GUPTA, RAM RATAN Crisis of the Indian Cotton Textile Mill Industry. U.P. Cotton Textile Mill Industry, Lucknow.

HABERLER, GOTTFRIED, "Income Savings and Investment", Studies in Income and Wealth (New York, National Bureau of Economic Research, 1958).

HANSEN, ALVIN H. Business Cycles and National Income (New York, W.W. Norton and Company; 1956).

HARROD, R.F. Towards a Dynamic Economics (London, Macmillan,1962).

HAWTREY, R.G. Capital and Employment. (London, Longmans, 1937.)

HENDERSON, R.F.	New Issue Market and the Finance of Industry. Bowes and Bowes 1957.
I.L.O:	Industrial Labour in India. Geneva, 1938.
_____	Methods of Labour Productivity Statistics. Geneva, 1951.
_____	Model Code of Safety Regulations for Industrial Establishments for the Guidance of Governments and Industry, Geneva, 1949.
_____	The law and Practice Relating to Safety in Factories. Montreal, 1949.
_____	World Textile Industry. Vols. I and II, 1957.
INDIA COMMERCE AND INDUSTRY (Ministry of-)	Hand-Book of Textile Control Orders 1959. Textile Commissioner, Bombay.
INDIAN COTTON MILLS FEDERATION	Indian Cotton Textiles- An Appraisal. 1962.
INDIAN COTTON MILLS FEDERATION, BOMBAY.	Survey of the Indian Cotton Mills Industry. 1960.
INDIAN COTTON MILLS' FEDERATION, BOMBAY	Third Plan Targets for Handlooms, Power Looms and Mills, 1961:
JEROME, HARRY:	Mechanisation in Industry. New York. National Bureau of Economic Research, 1964.
JEVKES, J. AND GEORGE, E.M.	Wages and Labour in Cotton Spinning. New York. National Bureau of Economic Research, 1964.
JONES, HOMER	Factors Influencing Investors. (New York, National Bureau of Economic Research, 1962).

KEYNES, J.M. — The General Theory of Employment, Interest and Money (London, Macmillan, 1966).

KOCH, A.R. — The Financing of Large Corporations 1920-39. (New York, National Bureau of Economic Research Studies in Business Financing, 1963).

KULKARNI, V.G. — Corporate Finance in India 1955-61. Popular Prakashan, Bombay.

KUZNETS, SIMON — Shares of Upper Income Groups in Income and Savings. (New York, National Bureau of Economic Research, 1966).

LALLUBHAI, V. — Towards Increased Cloth Production 1957. Padwaje Publications, Baroda.

LAVINGTON, F. — The English Capital Market (London, Methuen & Co. Ltd., 1961).

LINTNER, JOHN — Determinants of Corporate Savings- Savings in the Modern Economy, (Minneapolis, University of Minnesota Press, 1963.)

LOKANATHAN, P.S. — Industrial Organisation in India (London, George Allen and Unwin, 1965.)

LURIE, S. — Private Investment in a Controlled Economy, Germany 1933-1959. (New York, Columbia University Press, 1967.)

LYDALL, HAROLD F. — British Incomes and Savings (Oxford, Blackwell, 1955).

MANDELBAUM, K. — The Industrialization of Backward Areas. (Oxford, Basil Blackwell, 1965).

MARSHALL, ALFRED — Industry and Trade. (London, Macmillan & Co. Ltd., 1919).

MEHTA, R.C. — Capital Market in India for Planned Growth 1965. Kitab Ghar, Allahabad.

MEHTA, S.D. — Cotton Mills of India 1854- 1954. Textile Association of India, Bombay. 1954.

MEHTA, S.D. — Indian Cotton Textile Industry and Economic Analysis 1963. Textile Association of India, Bombay.

MILLOWNERS ASSOCIATION BOMBAY. — Facts About the Cotton Mills Industry in India 1963.

_____ — Indian Cotton Mills Industry. Its Importance to the Nation, 1957.

_____ — Rationalisation of the Indian Cotton Mills Industry 1954.

MOORE, W.E. and SPENGLER, J.J. — Economic Growth - Brazil, India, Japan. (Durham, Duke University Press, 1955).

MULKY, M.A. — New Capital Issue Market in India. Populer Book Depot. Bombay 1957.

NATIONAL PRODUCTIVITY COUNCIL. — Cotton Textile Industry in U.S.A., Japan, West Germany, France and Switzerland. Report of the Indian Productivity Team Dec. 1960.

PEARSE, ARNO S. — Cotton Industry of India. Taylor Garnett Evans & Co. Ltd., England, 1960.

RANDAL, F.P. — Issue Control and Regulation of Capital 1956. W. Haffer and Sons Ltd., Cambridge.

ROBSON, R. — Cotton Industry in Britain, 1957. Macmillan & Co., London.

ROSEN, G. — Some Aspects of Industrial Finance in India. Massachusetts Institute of Technology. Centre for International Studies, 1964.

ROSE, T.G. Internal Finance of Industrial Undertakings 1967. Isaac Pitman & Sons, London.

ROSTAS, L. Comparative Productivity in Britain and American Industry. Cambridge University Press 1960.

B. GOVERNMENT REPORTS AND OTHER PUBLICATIONS:

1. Report of the Central Wage Board on Cotton Textile Industry 1959, Delhi

2. Report of the Fiscal Commission (Vol. I & II) 1949-50, New Delhi.

3. Report of the Power-loom Enquiry Committee, Govt. of India, Delhi, 1964.

4. Report of the Second Central Wage Board for the Cotton Textile Industry, 1968.

5. Report of the Study Group for Cotton Textiles, Delhi 1968.

6. Report of the Textile Enquiry Committee 1954-58, Delhi.

7. Report of the Textile Re-organisation Committee (1st and 2nd) 1968-69, Government of Gujrat, Ahmedabad.

8. Report of the Working Group (Study Team) Handlooms-1959, Delhi.

9. Report of the Working Group for the Cotton Textile Industry- 1960. Bombay.

10. Report of the Working Party for Cotton Textile Industry, 1952. Delhi.

11. Report on Survey of Labour Conditions in Cotton Textile Factories in India- 1965, Delhi.

12. Government Measures Affecting Investment in India 1950 (New Delhi).

13. Report of the Directors of Textile Research Association 1966. A visit to Federal Republic of Germany and Switzerland: The South India Textile Research Association, Coimbatore.

14. Report of the Indian Cotton Mills Federation's Delegation- A visit to Japan's Cotton Textile Industry- 1965, ICMF, Bombay.

15. Report of the (Shroff) Committee on Finance for the Private Sector- 1954. (R.B.I.)

16. Report of the Working Group on the Appraisal of Applications for Term Loans- 1962 (R.B.I.)

17. The Industrial Finance Corporation Act- 1948.

18. The Life Insurance Corporation Act-1956.

19. Programme of Industrial Development (1956-61)- 1961. New Delhi.

20. The First Five Year Plan- 1951 (New Delhi).

21. Second Five Year Plan- 1956 (New Delhi).

22. Third Five Year Plan- 1961 (New Delhi).

C. INSTITUTIONAL PUBLICATIONS:
(Regular periodicals)

23. Annual Reports and Accounts of the Life Insurance Corporation of India.

24. Annual Reports of States Finance Corporations.

25. Annual Reports of the Industrial Credit and Investment Corporation of India Ltd.

26. Annual Reports of the Industrial Development Bank of India.

27. Annual Reports of the Industrial Finance Corporation of India

28. Annual Reports of the Unit Trust of India.

D. U.N.O. AND I.L.O. PUBLICATIONS:

29. Economic Developments of Under-developed countries- Volume and Distribution of National Income in Under-developed countries, New York-1951.

30. Economic Survey of Asia and Far-East, New York, 1960.

31. Establishment of Industrial Estates in Under-developed countries- New York,1961.

32. Measures for the Economic Development of the under-developed countries- New York, 1951.

33. Mechanical Assistance, Administration, Taxes and Fiscal Policies in Under-developed countries, New York, 1954.

34. Methods of Financing Economic Development, New York 1949.

35. Process and Problems of Industrialisation in under-developed countries, New York- 1955.

36. The International Flow of Private Capital- 1946-52. New York,1954.

37. World Textile Industry. Vols. I & II, 1937.

38. Asian Regional Conference of the I.L.O., Tokyo, 1953.

E. PERIODICALS:

39. The Indian Economic Journal (Quarterly), Bombay.

40. The Indian Journal of Commerce- A Quarterly of the Indian Commerce, Association, Chandigarh.

41. Banker (Monthly), New Delhi.

42. Indian Textile Bulletin (Monthly), Bombay.

43. Reserve Bank of India, Bulletin (Monthly), Bombay.

44. Economic Review (Fortnightly), Delhi.

45. Capital (Weekly), Calcutta.

46. Commerce (Weekly), Bombay.

47. Indian Finance (Weekly), Calcutta.

48. The Eastern Economist (Weekly), New Delhi.

49. Economic (Weekly) Bombay.

50. The Economic Times (Daily) Bombay.

51. The Financial Express (Daily), New Delhi.

———————ooOoo———————